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Public notice was given to *The Register-Guard* for publication on October 10, 2010.

LANE TRANSIT DISTRICT
BOARD OF DIRECTORS
FINANCE COMMITTEE MEETING

October 12, 2010
10:00 a.m. – 11:30 a.m.

LTD Conference Room A
3500 East 17th Avenue, Eugene (in Glenwood)

AGENDA

Page

I. CALL TO ORDER (Dean Kortge)

II. ROLL CALL (Dean Kortge)

Dubick ________ Kortge ______ Necker ________

VI. NEXT MEETING

VII. ADJOURN

Alternative formats of printed material (Braille, cassette tapes, or large print) are available upon request. A sign language interpreter will be made available with 48 hours' notice. The facility used for this meeting is wheelchair accessible. For more information, please call 541-682-6100 (voice) or 1-800-735-2900 (TTY, for persons with hearing impairments).

MINUTES OF MEETING OF THE HUMAN RESOURCES AND FINANCE COMMITTEES
LANE TRANSIT DISTRICT BOARD OF DIRECTORS

February 24, 2009

Pursuant to notice given to *The Register-Guard* for publication on February 19, 2009, and distributed to persons on the mailing list of the District, a meeting of the Lane Transit District Board of Directors Human Resources Committee and Finance Committee was held at 4 p.m. on Tuesday, February 24, 2009, in the District's conference room at 3500 E 17th Avenue, Eugene. The following Minutes relate to business conducted during the meeting by the Board Finance Committee.

Present: Michael Dubick, Chair
Gerry Gaydos
Ed Necker
Dean Kortge
Mary Adams, Director of Human Resources and Risk Management
Diane Hellekson, Director of Finance and Information Technology
Mark Pangborn, General Manager
Jeanne Schapper, Clerk of the Board/Recording Secretary

CALL TO ORDER – Mr. Dubick called the meeting to order at 3:58 p.m.

DRAFT REQUEST FOR PROPOSALS FOR AUDIT SERVICES: Chief Accountant/Internal Auditor Carol James presented information on the criteria for evaluation of the proposals. The firms are scored based on a point system: 75 points for the technical proposal, which includes 40 points based on experience and expertise and 35 points based on audit approach. After the points are tallied, the choice is narrowed down to a few proposals. The cost proposal (25 points) is then the deciding factor among the remaining proposals. Firms with staff who are experienced in evaluating Oregon governmental agencies and who have considerable experience auditing a federal grant program, including FTA, HUD, ODOT programs, is desirable. Interviews of remaining firms have not been done in the past since there was a very clear demarcation based on the above criteria.

Mr. Dubick stated that he had reviewed the Request for Proposal and found it to be solid. The three Board members all agreed with the staff recommendation for the auditor's selection process.

LTD RETIREMENT PROPOSAL: Ms. Adams said that the Deferred Compensation program has a five-member advisory committee set up within the plan that monitors the program and makes decisions about the program. About two years ago, discussions began concerning the fee structures of the investment options for the employees in the plans. Over time a couple of plan changes have been made. The proposal before the committees this evening is an additional proposal that would reduce fees for members and, hopefully, increase the investment earnings for members. The Board Committee members are being asked to decide at this meeting if they wish to forward this proposal to the full Board for its approval. Ms. Adams introduced David Hausam of AIG-Valic who created the Executive Summary.

Mr. Hausam, Certified Financial Planner, said that the discussion of the proposal would include the relationship with the District over the last decade and the relationship with parent company, AIG. AIG began its relationship with LTD with the deferred compensation plan, which is a voluntary plan that anyone at the District could use to set money aside on a pretax basis for retirement. A few years later, AIG began working with the 401A salary plan for Administrative employees, and AIG was the sole provider for investments in that plan. A few years later as assets grew, the fee structure was reduced; therefore, the amount that went to AIG was less and the amount remaining in employees' accounts was greater.

Mr. Hausam continued. The next proposal is to move from an annuity platform to a mutual fund platform, which comes with a reduction in Valic fees and an increase in return for clients that stay with the plan. On average, the fee structure in the new plan is about one half of a percent lower: a reduction on average of 1.7 percent to 1.2 percent. The proposed platform would have fewer fund options than the current plan. Studies have shown that a couple of dozen funds is preferred to facilitate ease in decision making.

The current plan has more than 60 funds; the proposed plan has about two dozen funds. Mr. Hausam stated that it seemed to make sense to move to a mutual fund platform with a less daunting array of options.

Valic, a wholly owned subsidiary, has been in business since 1955. In 2001 Valic was acquired by AIG, who elected to maintain Valic and other companies it acquired as wholly owned subsidiaries. With regards to the recent unfavorable news concerning AIG, Valic has an independent balance sheet separate from AIG. AIG has no access to Valic's client's investments and does not have access to Valic's operating profits. Actions which may have affected AIG's credit rating would not affect Valic's. Valic's bond rating remains strong. Fixed investments, such as those maintained in LTD's plan, are highly regulated and significant reserves are set aside in addition to the funds invested by clients. It is known that as of the last four to five months, AIG has indicated that they are seeking a buyer for Valic. It is imagined that by the end of the year, Valic will not be part of AIG.

In response to a question from Mr. Necker, Mr. Hausam said that when a company offers a fixed investment (people put money in with a fixed rate of return), that type of investment is highly regulated. Additional monies are required to have in reserves in case there is a period of time that the investments do not perform up to that fixed-return level. The return on investments would be protected. Currently, for every \$1.00 in investments, \$.92 in reserves is set aside. In the current proposal, variable investments (mutual funds) perform gaining or losing with the market and don't have a back up of reserves. A true fixed account does.

Mr. Dubick asked if, in switching from variable annuities to mutual funds, would employees have to roll from one fund to another? Will they need to pick specific funds and then move funds from one account to another, doing paperwork from one company to another? Mr. Hausam responded that in the transition from the old to the new plan, Valic would declare that all funds of a certain type in the old plan would map over to a similar platform in the new plan. If an employee wishes to move funds to a different arrangement than the current one, he/she is free to do that. All of these activities would take place under a tax sheltered umbrella so that there would be no 1099 reporting or impacts of that nature.

Mr. Kortge stated that there are advantages to variable annuities and asked if Valic could simply reduce the costs. Mr. Hausam stated that the cost was reduced earlier during the relationship with LTD; however, the structure of the mutual fund platform has lower costs for Valic as well, which is passed on to the client. The lowest cost annuity platform would not be as low. Also, even though this is a mutual fund platform, as people retire, if they want to annuitize their balance (which offers a lifetime stream of income), they would have that option. This is consistent with both the old and new plans.

Ms. Hellekson clarified that the 457 Deferred Compensation plan is the public sector version of a 401K and has an advisory committee that makes decisions within the rules of the plan, but the trustee for the plan is LTD. This means that plan changes and amendments have to be approved by the Board of Directors. This is not true for changes in the retirement plans.

Ms. Adams added that monies from both plans would be moved to the proposed model.

Mr. Dubick wished to confirm that because fees were lower in the new plan, that more money would be available for employees' investments. Mr. Pangborn confirmed Mr. Dubick's assessment and added that employees support the change.

Mr. Gaydos asked for clarification as to the risk to employees in each plan. Ms. Hellekson responded that the risk is about the same. She added that having fewer choices may be easier for most employees. In addition, 1.26 percent is a fee average. Actual fees will be disclosed in the cost structure to employees so that they may make informed decisions.

MOTION Mr. Necker moved that the proposal to modify LTD's 457(b) and 401(a) Retirement Plans, as described in the Executive Summary presented by AIG-Valic, be forwarded to the full LTD Board of Directors for discussion and approval. Mr. Dubick provided the second.

VOTE The motion was approved as follows:
AYES: Dubick, Kortge, Necker (3)
NAYS: None

LTD PENSION PLAN FUNDING: Ms. Adams reiterated that the reason that members of both committees were asked to meet together was because the issue has implications to both Human Resources and Finance processes. Long-term funding of both the ATU and salaried plans will be discussed. A second item to be discussed involves adding formal language to both plans that describes circumstances in which COLAs could be provided to retirees.

Each plan has a separate board of trustees. January 2008 was the last time an actuarial assessment was performed. At that time, the funding level for the ATU plan was 55.7 percent. The actuary estimates that the level will be lower (46 percent) in the 2010 assessment, based on the reduced earnings incurred in the down market during the last several months.

The Board made a policy decision about three years ago to increase the District's contribution over a 20-year period in order to fully fund both pension plans at 100 percent. It is certain that when the 2010 assessment is received, it will be determined that LTD will need to make a larger contribution than is currently being contributed. In response to a comment from Mr. Kortge regarding changing the policy, Ms. Adams said that there are pension plans that have less than a 100 percent funding goal.

LTD contributes $3.69 for every hour worked towards the cost of this plan for representative employees, which amounts to approximately $2 million of the current budget. Ms. Hellekson added that the benefit is specified by contract; the contribution is specified by actuary.

Ms. Adams added that this amounts to a $420,000 to $700,000 increase in 2010 to make up for recent investment losses of approximately 31 percent. In response to a request from Mr. Dubick, Ms. Adams said that she would get the dollar figure that corresponds to the recent investment losses. Ms. Adams added that investment cycles are cyclical; there are turnarounds. The District had a very strong investment cycle over the last twenty years and is expecting the same in the next twenty years. Investments should be thought of in the long term.

The salaried plan is managed by a different set of trustees. The funding level is higher and is estimated to be higher than the ATU funding level--mostly because of increases in the ATU retirement plan in the last several years that has not occurred with the salaried plan. The ATU plan also has a bigger pool of money, so perhaps more investment losses have occurred. The plan funding level estimated for 2009 is 61 percent, which is more favorable, perhaps due to the smaller pool of money involved.

The contribution for the salaried plan differs from the ATU plan in that it is a percentage of wages as opposed to cents per hour. The percentage is 16.2 percent or approximately $1 million in the current budget. The increase that is projected for this plan is approximately $176,000, bringing the annual contribution up to more than $1 million.

Mr. Pangborn added a thought: The actuarial loss on the market value of assets (ATU plan) for the 2008 calendar year was about $5.7 million. Ms. Hellekson added that estimates are on a two-year actuarial cycle. Typically the contribution rate is changed every two years after the analysis is done. Staff propose that the District deal with the problem now, rather than wait a year and a half, or July 1, 2010.

Ms. Adams continued. Retirees are dealing with the same economic issues that most active employers and plans are dealing with, and they are asking about potential COLAs (Cost of Living Adjustment). The District has not implemented a COLA for retirees in the salaried plan since 1999. ATU retirees received the last COLA adjustment two years ago and have had more years with adjustments than not, but still not every year. In the last two years, neither set of trustees approved a COLA. The ATU plan is the only plan that contains COLA language, which states that trustees are required to consider a COLA once each year. The salaried plan contains no COLA language.

Mr. Gaydos inquired about a tiered approach, switching to defined contribution plans. Ms. Adams answered that this is a possibility. Plan design changes are certainly something that the trustees could review. Alternatives, such as joining PERS, have been discussed in the past.

Mr. Gaydos suggested a cap on the liability, with new employees added to a new plan. He stated his support of the plan in the short term; however, in the long term he questioned the financial feasibility of the current plan.

Mr. Kortge added that with a defined contribution in a private plan, retirees may get an increase or a significant decrease in benefits. The positive aspect of a defined benefit is that there is a guaranteed income. It seems that the tradeoff should be a fixed benefit for no COLA. If COLA language is added, it should be tough language.

Mr. Pangborn referred to the PERS model, which kept a defined benefit plan, but reduced the benefit, e.g. Tier 1, Tier 2, and Tier 3. Tier 3 will earn less than Tier 2 or Tier 1 because the plans are too costly. Another option is to migrate from a defined benefit plan to a hybrid, which is half defined benefit and half defined contribution.

Mr. Dubick said that there should be a minimum actuarial level in the account in order to have any hope of maintaining the system. Perhaps the language should state something to the effect that the funds need to exceed the minimum amount, and then a COLA could be considered. If that level is not achieved, the COLA should not be an option.

At the request of Mr. Kortge, ATU representative Brian Pasquali offered the union's perspective. He said that it had been two years since retirees had enjoyed a COLA adjustment. Ms. Adams confirmed that the pension plan requires that the trustees consider a COLA once each year. Ms. Hellekson clarified that the union contract, however, does not contain any such language.

Mr. Dubick asked if employees had considered paying some of the retirement money. LTD can afford to contribute only so much and stay viable. At the same time, that viable amount may not come anywhere near the amount needed to pay future retirees.

Mr. Pangborn reiterated that District representatives would be back in negotiations with the union in about one year. A number of issues will be on the table, and retirement will be one of the issues. Salem Transit does not have a defined benefit plan; it is a defined contribution, which means that the employer puts up something and the employee puts up something.

In response to a question from Mr. Kortge, Ms. Adams said that staff are working on COLA language for the plans. Many plans contain COLA language—usually in the range between two percentages, but it is not unusual for plans to contain language around plan funding levels. One thing the District needs to be cognizant of is being clear to retirees about what they can expect.

NEXT MEETING – The next meeting of the Committee will be held at 4 p.m. on May 12 to make the final selection of the auditor.

ADJOURNMENT – There was no further discussion, and the meeting adjourned at 5:03 p.m.

____
Recording Secretary

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MINUTES OF FINANCE COMMITTEE MEETING

LANE TRANSIT DISTRICT BOARD OF DIRECTORS

May 12, 2009

Pursuant to notice given to *The Register-Guard* for publication on May 10, 2009, and distributed to persons on the mailing list of the District, a meeting of the Lane Transit District Board of Directors Finance Committee was held on May 12, 2009, at Lane Transit District, 3500 East 17th Avenue, Eugene.

PRESENT - Mike Dubick, Dean Kortge, Ed Necker

CALL TO ORDER – Mr. Kortge, chair of the committee, called the meeting to order at 3:58 p.m.

ROLL CALL – All committee members were in attendance. The following LTD staff also was present: Diane Hellekson, Carol James, Andy Vobora, Jeanette Bailor, Stefano Viggiano, and Chris Thrasher.

MINUTES – Minutes from the February 18, 2009, meeting were approved by the committee.

FARE POLICY UPDATE – Mr. Vobora, director of service planning, accessibility, and marketing, provided the committee with recommended updates to the Fare Policy to reflect the 2008 decision to eliminate token sales and revise the Not-for-Profit Agency Discount Program.

Currently, the District offers private nonprofit agencies the opportunity to purchase LTD fare media at a 50 percent discount. This discount is granted in recognition of a community need for transportation services for individuals and families who are working with these agencies to seek employment, housing, and medical services.

Mr. Vobora reviewed the updated guidelines for purchasing fare media through this program, which included replacing tokens with a day pass coupon and replacing the monthly cap with an $80,000 annual program cap. Agencies will be required to recertify with LTD by submitting an application and signing that they understand that they could be dropped from the program if they do not abide by the new guidelines. The Finance Department will assume the responsibilities of filling the orders.

Staff hopes to flush all the tokens out of the system by the end of December 31, 2009.

Mr. Kortge recommended clarifying what the $80,000 annual program limit is based on. Ms. Hellekson, director of finance and information technology, stated that the amount is based on an estimate.

In response to a question from Mr. Dubick, Mr. Vobora stated that when the program started in 1985, the limit was $12,000 a year. Over the years, the Board of Directors has increased the amount as the community needs have grown.

Mr. Vobora stated that LTD received two grants from the City of Eugene under their homeless transportation program, which allows not-for-profit agencies to buy fares at a 75 percent discount until the funds run out.

The committee approved presenting the Fare Policy changes to the full Board.

EXECUTIVE SESSION – The committee moved into executive session at 4:12 p.m. pursuant to ORS 192.660(2)(f) to evaluate proposals for audit services and to select a firm to recommend to the full Board in May.

RETURN TO OPEN SESSION: The executive session ended at 4:48 p.m. and returned to open session.

NEXT MEETING - Ms. Hellekson reminded the committee of the Budget Committee meeting on May 20.

OTHER – Ms. Hellekson stated that payroll tax receipts were at 99.3 percent of last year's receipts.

ADJOURNMENT – There was no further discussion, and the meeting adjourned at 4:52 p.m.

(Recorded and transcribed by Chris Thrasher, Lane Transit District)

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FINANCE COMMITTEE AGENDA ITEM SUMMARY

DATE OF MEETING: October 12, 2010

ITEM TITLE: LANE TRANSIT DISTRICT PENSION PLAN FUNDING

PREPARED BY: Diane Hellekson, Director of Finance and Information Technology

ACTION REQUESTED: None

BACKGROUND: As most Board members know, the features and cost of funding public entity pension plans are controversial topics these days. While, LTD is not a member of the Public Employee Retirement System, employees are covered by one of two defined benefit plans depending on employment status. Employees represented by Amalgamated Transit Union 757 are covered by the Lane Transit District and Amalgamated Transit Union, Local No. 757, Pension Trust. Administrative employees are covered by the Lane Transit District Salaried Employees' Retirement Plan. Both plans currently assume full funding over a twenty-year period and 7.5 percent return on the investment of plan assets, down from 8 percent that was the actuarial assumption until 2006. Despite the more conservative return on investment (ROI) assumption, both plans have large and growing unfunded liabilities, and the portfolios are earning significantly less than 7.5 percent. The unfunded liability for the ATU plan was $14,017,672 on January 1, 2010. The unfunded liability for the salaried plan was $4,503,512 on July 1, 2009.

The purpose of the committee discussion on October 12 will be to consider the validity of the actuarial assumptions for both plans, primarily ROI, and discuss the advantages and disadvantages of reducing the ROI assumption. The possibility of controlling plan costs by changing the features of both plans for prospective employees will be a discussion item for the Human Resources Committee, which will meet later on October 12.

ATTACHMENTS:

1) September 18, 2010, Wall Street Journal Article
2) July 1, 2009, Actuarial Valuation for the Administrative Plan
3) January 1, 2010, Actuarial Valuation for the ATU Plan
4) Milliman Analysis of 6.5 Percent Return on Investment Assumption

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Pension Gaps Loom Larger

Funds Stick to 'Unrealistic' Return Assumptions, Threatening Bigger Shortfalls

BY DAVID REILLY

Many of America's largest pension funds are sticking to expectations of fat returns on their investments even after a decade of paltry gains, which could leave U.S. retirement plans facing an even deeper funding hole and taxpayers on the hook for huge additional contributions.

The median expected investment return for more than 100 U.S. public pension plans surveyed by the National Association of State Retirement Administrators remains 8%, the same level as in 2001, the association says.

The country's 15 biggest public pension systems have an average expected return of 7.8%, and only a handful recently have changed or are reconsidering those return assumptions, according to a survey of those funds by The Wall Street Journal.

Corporate pension plans in many cases have been cutting expectations more quickly than public plans, but often they were starting from more-optimistic assumptions. Pension plans at companies in the Standard & Poor's 500 stock index have trimmed expected returns by one-half of a percentage point over the past five years, but their average return assumption is also 8%, according to the Analyst's Accounting Observer, a research firm.

The rosy expectations persist despite the fact that the Dow Jones Industrial Average is back near the 10000 level it first breached in 1999. The 10-year Treasury note is yielding less than 3%, and inflation is running at only about 1%, making it tougher for plans to hit their return targets.

Return assumptions can affect the size of so-called funding gaps—the amounts by which fu-

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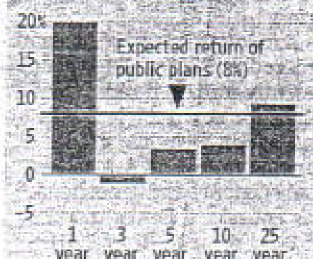
Forecasting Challenge

Median annualized investment returns for public pension plans, by time span



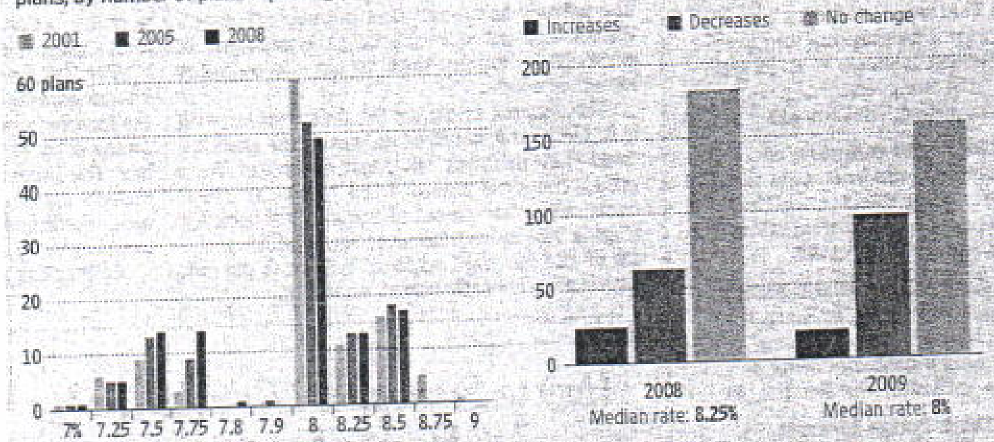
Note: As of Dec. 31
Sources: Callan Associates; Nasra

ealistic' Return Assumptions

Great Expectations | Many pension plans retain high return assumptions

Expected investment return rates for public pension plans, by number of plans reporting particular levels

Changes to return assumptions reported by S&P 500 companies with pension plans



Sources: National Association of State Retirement Administrators; Analyst's Accounting Observer

Funds use a so-called discount rate to estimate the size of future obligations to retirees, and thus the contributions needed to fund them. Corporate plans use a discount rate based on corporate bond yields. But government plans use their expected return rate on all investments as their discount rate.

The higher the discount rate, the smaller a fund's pension obligation. That gives public plans another big reason to hesitate before cutting their expected return rates.

The Colorado Public Employees Retirement Association showed in its 2009 financial report the impact of reducing the rate. Using a 8% expected return rate, the plan faced a $23.4 billion deficit, based on market values, at the end of 2009. If the rate was cut to 6.5%, the shortfall would jump to $34 billion.

Meredith Williams, the Colorado plan's chief executive, says cutting the rate "creates pain." Nevertheless, Colorado at year-end of 2009 cut its return assumption to 8%, from 8.5%. Mr. Williams says the rate may be lowered again later this year.

Others have been more hesitant. In 2009, Matt Smith, state actuary for Washington state, recommended that its retirement system cut its return expectation to 7.5%, from 8%. That advice was rejected by the state's pension-funding council.

Mr. Smith says he thinks Washington and other states eventually will lower expected returns, but that it will be a slow process because reduced assumptions "will increase the cost of pension benefits, and right now the budgetary environment is a big obstacle to that."

Pension plans say they take a decades-long view of potential returns. "We can't knee-jerk our way through this. Funding a retirement system is a long-term proposition," says David Stella, secretary of Wisconsin's department of employee trust funds. Last year Wisconsin's plan reviewed its expected return rate of 7.8% and remains comfortable with it, he says.

Companies have found out the hard way that their options are limited. From 2005 to 2009, S&P 500 companies with pension plans expected to generate about $475 billion in returns. The actual returns were only about $239 billion, a 50% undershoot, according to Jack Ciesielski of the Analyst's Accounting Observer.

In recent years, some funds have tried to boost returns by shifting funds out of stock and into alternative investments such as hedge funds or private equity.

Some find this approach too risky. This summer, the Virginia Retirement System cut its expected investment rate to 7%, from 7.5%, giving it the lowest assumption among the nation's 15 largest pension systems. The shift began in 2005, when the plan's board cut the rate to 7.5%, from 8%.

"There was a general thinking that equity markets were unlikely to repeat the period of the 1990s," explains director Robert Schultze.

The alternative was to take more risk, he says, but the board didn't want to "stretch or be swinging for the fences" to meet higher investment expectations.

Other plans, he predicts, will follow suit. "I just think people are going to be coming off that 8% view," he says.

Funds Stick to 'Unr

Continued from Page One

ture liabilities to retirees exceed current pension assets. That's because government plans use the return rates to calculate how much money they need to meet their future obligations to retirees. When there are funding gaps, plans have to get more contributions from either employers or employees.

The concern is that the reluctance to plan for smaller gains will understate the scale of the potential time bomb facing America's government and corporate pension plans.

"It's unrealistic," John Bogle, founder of mutual fund giant Vanguard, says of the return assumptions in place at most pension plans.

Pension funds at companies in the S&P 500 faced a $260 billion shortfall at the end of 2009, according to Standard & Poor's. Estimates of the fund deficits faced by state and local governments range from $500 billion to $1 trillion.

Some plans are beginning to trim their return forecasts.

Earlier this month, New York State Comptroller Thomas DiNapoli said he would reduce the expected rate of investment return for his state's pension system, the third-largest in the nation, to 7.5%, from 8%.

The country's two biggest plans—the California Public Employees Retirement System, or Calpers, and the California State Teachers' Retirement System, or CalSTRS—both are undergoing reviews of projected investment returns that could lead to reductions later this year.

Many plans have held onto an 8% return expectation though thick and thin. Such return assumptions partly reflect the heady years of the 1990s bull market. Public pension plans posted a median, annualized return of 9.3% over the past 25 years, but just 3.9% over the past 10, according to consulting firm Callan Associates.

The Oregon Public Employees Retirement System has had an 8% assumption since 1989. Its actual return averaged 10.7% annually from 1970 through 2009. The Teachers Retirement System of Texas has had a similar expectation since 1986, with an annual return of 9% return since then.

A spokeswoman for the Texas system said it doesn't change assumptions "in response to short-term situations," and currently "sees no reason to change our investment-return assumption." A spokesman for the Oregon system said there are no special plans to review its return expectation.

The challenge for many plans, given investment horizons that can stretch out 50 years, is gauging which time period to look at when charting a future course.

George Diehr, vice president of the Calpers board, said in May that the question is whether the credit crisis has "dramatically altered long-held assumptions about investing in the world's financial markets. Are investors in for a sustained period of meager or below-market growth? Or will the traditional business and economic cycles, the ones investors

Many plans have held onto an 8% return expectation through thick and thin.

have grown accustomed to over the past couple of decades, return?"

The outcome of Calpers's ongoing review "hangs on how we answer that question," a spokesman says.

Depressed stock prices aren't the only thing putting pressure on potential returns. Plummeting bond yields mean that plans' fixed-income portfolios will likely earn less in the future. A lower inflation outlook means that funds will have to generate greater real returns to meet their return targets.

LANE TRANSIT DISTRICT SALARIED EMPLOYEES' RETIREMENT PLAN

ACTUARIAL VALUATION
As of July 1, 2009

Prepared by

Peter R. Sturdivan, FSA, EA, MAAA
Principal and Consulting Actuary

and

Ladd E. Preppernau, FSA, EA, MAAA
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January 29, 2010

Trustees
Lane Transit District Salaried
Employees' Retirement Plan

Dear Trustees:

As requested, we have completed an actuarial valuation of the Lane Transit District Salaried Employees' Retirement Plan as of July 1, 2009 for determining contributions for the fiscal years ending June 30, 2011 and June 30, 2012 and for fulfilling accounting requirements under GASB Statements No. 25 and 27. Our findings are set forth in this valuation report. This report reflects the benefit provisions in effect as of July 1, 2009.

In preparing our report we relied without audit on information (some oral and some in writing) supplied by Kernutt Stokes Brandt & Co., LLP (KSB) and the District. This information includes, but is not limited to, statutory provisions, employee data, and unaudited financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The valuation results depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different and our calculations may need to be revised.

All costs, liabilities, rates of interest, and other factors for the Plan have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the Plan and reasonable expectations); and which, in combination, offer our best estimate of anticipated experience affecting the Plan. Nevertheless, the emerging costs will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements. The Board of Trustees has the final decision regarding the appropriateness of the assumptions.

Actuarial computations presented in this report are for purposes of determining the recommended funding amounts for Lane Transit District Salaried Employees' Retirement Plan. Actuarial computations presented in this report under GASB Statements No. 25 and 27 are for purposes of fulfilling financial accounting requirements. The computations prepared for these two purposes may differ as disclosed in our report. The calculations in the enclosed report have been made on a basis consistent with our understanding of the District's funding requirements and goals. The calculations in this report have been made on a basis consistent with our understanding of GASB Statements No. 25 and 27. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

Milliman's work is prepared solely for the internal business use of the Lane Transit District Salaried Employees' Retirement Plan. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exception(s):

(a) The Plan may provide a copy of Milliman's work, in its entirety, to the Plan's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the Plan.

(b) The System may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

We respectfully submit the following report, and we look forward to discussing it with you.

Sincerely,

Peter R. Sturdivan

Peter R. Sturdivan, FSA, EA, MAAA
Principal and Consulting Actuary

Ladd E. Preppernau

Ladd E. Preppernau, FSA, EA, MAAA
Consulting Actuary

PRS:cjs

LANE TRANSIT DISTRICT
SALARIED EMPLOYEES' RETIREMENT PLAN

ACTUARIAL VALUATION
AS OF JULY 1, 2009

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LANE TRANSIT DISTRICT
SALARIED EMPLOYEES' RETIREMENT PLAN

SECTION 1

SUMMARY OF THE FINDINGS

Purpose

This report presents the results of the actuarial valuation of the Lane Transit District Salaried Employees' Retirement Plan as of July 1, 2009. The purpose of this report is to:

- determine the funded status of the Plan as of July 1, 2009,
- calculate a recommended contribution to fund the Plan's benefits for the fiscal year beginning July 1, 2010, and
- develop the disclosure information required by the Government Accounting Standards Board as of June 30, 2009.

Section 1 of this report summarizes the important figures developed in this valuation. Section 2 discusses the actuarial concepts and methods upon which the findings are based.

Actuarial Assumptions and Methods

All of the calculations in this report are based on certain assumptions regarding the future experience of the Plan. These assumptions are summarized in Appendix A of this valuation report, along with a description of the actuarial methods used to determine the Plan's costs. The following assumptions were changed for the January 1, 2009 Actuarial Valuation.

- Assumed future salary increases were changed from 5% per annum to 2% per annum for two years and 5% per annum thereafter.
- The assumed amount of administrative expenses was increased from $36,000 to $45,000, payable at the beginning of the plan year.

Plan Benefits Valued

The results of this report are based on the 2001 Restated Lane Transit District Salaried Employees' Retirement Plan as amended through the June 18, 2008 Sixth Amendment. There were no material plan changes reflected in this valuation. A summary of the plan is found in Appendix B.

Participant Statistics

Appendix C contains a summary of the participant data upon which this valuation is based. The data was provided by the City, and was accepted for valuation purposes without audit. It should be noted that if the data is inaccurate or incomplete, the valuation results may need to be revised. A comparison of participants valued this year versus last year follows:

PARTICIPANT STATISTICS	July 1, 2009	July 1, 2007
Retirees and Beneficiaries	36	32
Average Monthly Benefit Paid From Trust	$970	$923
Vested Terminated Participants	40	40
Average Accrued Monthly Benefit	$414	$437
Hourly Plan Transfers	4	4
Average Accrued Monthly Benefit	$551	$256
Active Participants	82	78
Average Anticipated Salary	$64,402	$61,910
Average Age	49.4	49.3
Average Vesting Service	12.5	12.1
Total Participants	162	154

Financial Information

The Plan's financial information was taken from an unaudited trial balance as of June 30, 2009 provided by Kernutt Stokes Brandt & Co., LLP (KSB). The Plan's investment return for the two-year period ending June 30, 2009 is shown below:

Plan Year	Market Value Rate of Return	Actuarial Value Rate of Return
2007 – 2008	-8.2%	3.3%
2008 – 2009	-20.5%	-11.7%
Annualized Return	-14.6%	-4.5%

The return on Actuarial Value of Assets was greater than the return on Market Value of Assets due to the deferral of recent investment losses. The Plan's asset valuation method recognizes investment gains and losses over a three-year period in order to reduce volatility in the Plan's recommended contribution level. As of July 1, 2009, the Actuarial Value of Assets has not recognized $1,588,741 of past investment losses.

It is certain that the Plan's experience will differ from our actuarial assumptions, creating actuarial gains and losses. This increase was primarily due to investment experience. The losses due to investment experience were partially offset by salary, experience, and other demographic gains.

Funded Status

FUNDED STATUS

	July 1, 2009	July 1, 2007
Actuarial Accrued Liability	$ 14,035,959	$ 12,495,566
Actuarial Value of Assets	$ 9,532,447	$ 9,377,540
Market Value of Assets	$ 7,943,706	$ 9,663,573
Unfunded Actuarial Accrued Liability*	$ 4,503,512	$ 3,118,026
Funded Percentage based on Actuarial Value of Assets	68%	75%
Funded Percentage based on Market Value of Assets	57%	77%

*Based on Actuarial Value of Assets and used in developing the recommended contribution rate

Recommended Contribution Rate

The Plan's recommended contribution rate is the rate (as a percentage of base pay) to keep the Plan on a sound actuarial basis in the future based on the procedures and assumptions described in this report. The Calculated Valuation Contribution Amount is made up of three components: Normal Cost (the annual cost of benefits earned); anticipated operating expenses; and a payment to amortize the Plan's Unfunded Actuarial Accrued Liability. The Plan's recommended contribution rate beginning July 1, 2010 is shown below, along with comparable figures from the July 1, 2007 valuation report:

RECOMMENDED CONTRIBUTION RATE

	July 1, 2009	July 1, 2007
Calculated Valuation Contribution Amount	$ 952,334	$ 789,134
Considered Payroll	$ 5,216,585	$ 4,705,218
Recommended Contribution Rate	18.3%	16.8%
Effective Dates of Contribution Rates		
Beginning	July 1, 2010	July 1, 2008
Ending	June 30, 2012	June 30, 2010

The recommended contribution rate has increased from 16.8%, as shown in our July 1, 2007 Valuation Report, to 18.3%. Below is a reconciliation of the recommended contribution rate:

(1) 2007 Recommended Contribution Rate		16.8%
(2) Increase (Decrease) due to:		
(a) Investment experience	2.9%	
(b) Variance from demographic and salary assumptions	-1.1%	
(c) Assumption Changes	-0.3%	
Change in Valuation Rate		1.5%
(3) 2009 Recommended Contribution Rate		18.3%

The contribution rate is expected to remain stable as long as:

(1) Experience remains reasonably close to that expected according to the actuarial assumptions;

(2) Current eligibility and benefit provisions remain unchanged; and

(3) Contributions are made at the recommended rates.

GASB Information

The Government Accounting Standards Board requires certain disclosures of both the Plan and the Employer. This information is shown in Tables 8 and 9 in Section 2 of this report, and is summarized below:

GASB INFORMATION	July 1, 2009	July 1, 2008
Annual Required Contribution (ARC)		
Fiscal Year Ending	June 30, 2011	June 30, 2010
ARC (excluding employee contribution)	18.3%	16.8%
Net Pension Obligation (NPO)		
Fiscal Year Ending	June 30, 2009	June 30, 2008
NPO	$ (225,084)	$ 0

LANE TRANSIT DISTRICT
SALARIED EMPLOYEES' RETIREMENT PLAN

SECTION 2

DISCUSSION OF THE VALUATION

A fundamental principle in financing the liabilities of a retirement program is that the cost of its benefits should be related to when those benefits are earned, rather than to when they are paid. There are a number of methods in use for making such a determination.

The method used for this valuation is technically referred to as the Entry Age Normal method. This method produces a recommended contribution equal to the Normal Cost plus an amortization of the Unfunded Actuarial Accrued Liability expressed as a level percentage of payroll. The method is described in detail in Appendix A of this report.

ACTUARIAL VALUE OF ASSETS

Table 1 shows the Plan's Market Value of Assets as of July 1, 2009. This information was provided by Kernutt Stokes Brandt & Co., LLP.

Table 2 shows the derivation of the Actuarial Value of Assets based on three-year smoothing.

ACTUARIAL BALANCE SHEET

Table 3 shows the development of the Plan's Unfunded Actuarial Accrued Liability as of July 1, 2009.

Table 4 is the actuarial balance sheet as of July 1, 2009 based on our procedures and assumptions. The Resources equal the Requirements and can be thought of as the amount of funds resulting from:

(1) the plan's Actuarial Value of Assets which are available for employer provided benefits, plus

(2) the Actuarial Present Value of Future Normal Costs to be made by the District in the future, plus

(3) the Actuarial Present Value of Future Payments to amortize the Unfunded Actuarial Accrued Liability.

The Actuarial Present Value of Benefits is the estimated single sum required on July 1, 2009 which, together with future interest earnings, would accumulate to provide all benefits due under the plan in the future.

NORMAL COST

Table 5 shows the development of the Plan's Normal Cost as of July 1, 2009. The Normal Cost can be thought of as the cost of benefits accruing during the plan year that will be paid in the future as retirement, termination, or death benefits.

AMORTIZATION OF THE UNFUNDED ACTUARIAL ACCRUED LIABILITY

The Plan's Unfunded Actuarial Accrued Liability is amortized over a 20 year closed amortization period as a level percent of pay. The calculation of the January 1, 2009 amortization payments is shown on Table 6.

For the 2009 amortization base, we assume the amortization payment will increase by 2% annually for two years and then increase by 5.0% for the remaining period. The payments for all previously established bases will continue to increase annually at 5.0%.

RECOMMENDED CONTRIBUTION RATE

Table 7 shows the recommended level employer contribution rate we. This rate is required effective July 1, 2010 and thereafter to keep the plan on a sound actuarial basis, according to the procedures and assumptions chosen for this valuation and described in Appendix A of this report.

The contribution rates recommended in this report are expected to remain stable as long as:

(1) Experience remains reasonably close to that expected according to the actuarial assumptions;

(2) Current eligibility and benefit provisions remain unchanged; and

(3)Contributions are made at the recommended rates.

ACCOUNTING STANDARDS

Table 8 and *Table 9* contain figures which your auditors may require for the preparation of the Plan's financial statements under the following Standards issued by the Government Accounting Standards Board (GASB).

GASB Statement No. 25 - Financial Reporting by Plans. Generally, Statement No. 25 requires a summary of the funded status of the plan, and a statement on the relationship of the actual annual contributions to an annual required contribution (ARC).

GASB Statement No. 27 - Employer's Accounting. Certain disclosures are required in the employer's financial statements including the annual pension cost (APC). Generally, the APC will equal the employer's ARC, as actuarially determined by the funding methods and assumptions. If the actual contribution is either more or less than the ARC, than a Net Pension Obligation must be determined, and this amount may be required to be disclosed in the General Long Term Debt Account Group (GLTDAG) of the District's financial statements.

GASB Statement No. 50. The Government Accounting Standards Board issued GASB Statement No. 50 in May 2007, which amended GASB 25 and GASB 27. GASB 50 was effective for plan and fiscal years beginning January 1, 2008 for the District.

GASB 50 amended Statement 25 to require the Plan to disclose in the notes to financial statements the methods and assumptions used to determine the fair value of investments, if the fair value is based on other than quoted market prices.

GASB 50 amended Statement 27 to require additional notes and disclosures for plans with multiple contributing employers. We understand that the District is the only contributing employer for the Plan, so these additional notes and disclosures do not apply. If this is incorrect, please let us know so that we can prepare the necessary disclosures for each contributing employer.

APPENDICES

All of the calculations of the valuation were carried out using certain assumptions as to the future experience of the plan in matters affecting the actuarial cost. Appendix A summarizes these assumptions and describes the actuarial procedures used to calculate costs.

Appendix B outlines the benefit and contribution provisions of the plan.

The membership data that was supplied to us is summarized in Appendix C.

LANE TRANSIT DISTRICT
SALARIED EMPLOYEES' RETIREMENT PLAN

MARKET VALUE OF ASSETS
(July 1, 2009)

Assets		
Bank of America	$ 126,511	
Union Bank of California	7,817,195	
Total		$ 7,943,706
Liabilities		
Withholdings Payable for Period Ending June 30, 2009	$ 0	
Total		0
Assets Available for Plan Benefits		$ 7,943,706

Source: Unaudited trial balance as of June 30, 2009 provided by Kernutt Stokes Brandt & Co., LLP.

LANE TRANSIT DISTRICT
SALARIED EMPLOYEES' RETIREMENT PLAN

ACTUARIAL VALUE OF ASSETS
(July 1, 2009)

Asset Reconciliation

Plan Year	(1) Market Value of Assets July 1	(2) Employer Contributions	(3) Benefit Payments	(4) Administration Expenses	(5) Cash Flow (2)-(3)-(4)	(6) Actual Investment Income	(7) Market Value of Assets End of Plan Year (1)+(5)+(6)
2008-2009	$9,252,854	$1,134,078	$435,421	$45,700	$652,957	$(1,962,106)	$7,943,706
2007-2008	9,663,513	839,195	387,192	52,251	399,755	(810,474)	9,252,854

Source: Unaudited trial balance as of June 30, 2009 Statement of Net Assets and Trust Balance provided by Kernutt Stokes Brandt & Co., LLP.

Actuarial Value of Assets

Plan Year	Actual Investment Rate of Return (1)	Actual Investment Return	Expected 7.5% Investment Return (2)	Difference between Actual and Expected
2008-2009	-20.5%	$(1,962,106)	$718,450	$ (2,680,556)
2007-2008	-8.2%	(810,474)	739,759	(1,550,233)

(1) Based on market value.

(2) Using simple interest and assuming contributions, benefit payments and expenses occur at mid-year.

Market Value of Assets on July 1, 2009	$ 7,943,706
Add 2/3 of $2,680,556 loss	1,787,037
Add 1/3 of $1,550,233 loss	516,744
Preliminary Actuarial Value of Assets on July 1, 2009	$ 10,247,487
Final Actuarial Value of Assets as of January 1, 2009 (not less than 80% or greater than 120% of Market Value)	9,532,447
Actuarial Value as a Percentage of Market Value	120%

LANE TRANSIT DISTRICT
SALARIED EMPLOYEES' RETIREMENT PLAN

DEVELOPMENT OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
(July 1, 2009)

Unfunded Actuarial Accrued Liability July 1, 2007		$ 3,118,026
Changes from July 1, 2007 through June 30, 2009		
Normal Costs	$ 1,132,799	
Contributions	(1,973,276)	
Interest	475,528	
Total		(364,949)
Expected Unfunded Actuarial Accrued Liability as of June 30, 2009		$ 2,753,077
Investment (Gain)/Loss		2,427,767
Expense (Gain)/Loss		25,387
Other Actuarial (Gain)/Loss		(472,576)
Plan Amendments		0
Assumption Changes		(230,143)
Unfunded Actuarial Accrued Liability July 1, 2009		$ 4,503,512

LANE TRANSIT DISTRICT
SALARIED EMPLOYEES' RETIREMENT PLAN

ACTUARIAL BALANCE SHEET
(July 1, 2009)

REQUIREMENTS

Actuarial Present Value of Benefits		
Retirees and Beneficiaries		$ 4,003,710
Terminated Vested Participants		1,236,148
Hourly Plan Transfers		160,871
Active Participants		
Retirement Benefits	$ 11,240,035	
Death Benefits	218,111	
Termination Benefits	636,686	12,094,832
Total Requirements		$ 17,495,561

RESOURCES

Actuarial Value of Assets	$ 9,532,447
Unfunded Actuarial Accrued Liability	4,503,512
Actuarial Present Value of Future Normal Costs	3,459,602
Total Resources	$ 17,495,561

LANE TRANSIT DISTRICT
SALARIED EMPLOYEES' RETIREMENT PLAN

NORMAL COST
(July 1, 2009)

Retirement Benefits	$ 460,570
Death Benefits	12,977
Termination Benefits	81,286
Entry Age Normal Cost	$ 554,833

LANE TRANSIT DISTRICT
SALARIED EMPLOYEES' RETIREMENT PLAN

AMORTIZATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY

AMORTIZATION BASES

Description	Balance July 1, 2007	Payment 2007-2008	Balance July 1, 2008	Payment 2008-2009	Balance July 1, 2009
Initial Base	$ 2,680,096	$ 180,514	$ 2,687,051	$ 189,540	$2,684,825
2005-2007 Experience Loss	437,930	27,131	441,609	28,488	$ 444,106
2007-2009 Experience Loss	n/a	n/a	n/a	n/a	$1,374,581
				Total Unfunded Liability:	$4,503,512

AMORTIZATION PAYMENTS

Date Established	Description	Remaining Period As of July 1, 2009	2009-2010 Amortization Payment
July 1, 2005	Initial Base	16	$ 199,017
July 1, 2007	2005-2007 Experience Loss	18	$ 29,912
July 1, 2009	2007-2009 Experience Loss	20	$ 89,751
		Total Amortization Payment:	$ 318,680

Explanatory Notes:

- Amortization payments are based on a fixed schedule that increases each year by the assumed rate of salary inflation at the time the base was established.
- Each existing base and future bases will be amortized over a 20-year period.

LANE TRANSIT DISTRICT
SALARIED EMPLOYEES' RETIREMENT PLAN

DETERMINATION OF RECOMMENDED CONTRIBUTION RATE
(For the Fiscal Year beginning July 1, 2010)

(1)	Actuarial Present Value of Benefits	$ 17,495,561
(2)	Actuarial Present Value of Future Normal Costs	3,459,602
(3)	Actuarial Accrued Liability [(1) – (2)]	$ 14,035,959
(4)	Assets Available for Plan Benefits	9,532,477
(5)	Unfunded Actuarial Accrued Liability [(3) – (4)]	$ 4,503,482
(6)	Amortization of the Unfunded Actuarial Accrued Liability (See Table 6)	$ 318,680
(7)	Entry Age Normal Cost	554,833
(8)	Expense Assumption	45,000
(9)	Annual Plan Cost at Beginning of Year [(6) + (7) + (8)]	$ 918,513
(10)	Interest Adjustment for Payment Through the Year	$ 33,821
(11)	Calculated Valuation Contribution	$ 952,334
(12)	Anticipated Payroll for the Fiscal Year Ending June 30, 2010	$ 5,216,585
(13)	Recommended Contribution Rate beginning July 1, 2010 [(11) ÷ (12)]	18.3%

LTD BOARD FINANCE
COMMITTEE MEETING
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LANE TRANSIT DISTRICT
SALARIED EMPLOYEES' RETIREMENT PLAN

SCHEDULE OF FUNDING PROGRESS
(Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL) [1]	Unfunded Actuarial Accrued Liabilities (UAAL) [2]	Funded Ratio	Covered Payroll [3]	UAAL as a Percentage of Payroll
June 30, 2005	$7,517.0	$10,159.8	$2,642.8	74.0%	$4,245.5	62.6%
June 30, 2007	$9,377.5	$12,495.6	$3,118.1	75.0%	$4,705.2	66.3%
June 30, 2009	$9,532.4	$14,036.0	$4,503.5	67.9%	$5,216.6	86.3%

(1) Determined using the Entry Age Actuarial Cost Method.

(2) Actuarial Accrued Liabilities less Actuarial Value of Assets.

(3) Covered Payroll is an annualized compensation to be paid during the plan year subsequent to the valuation date of only those members who were active on the actuarial valuation date.

LANE TRANSIT DISTRICT
SALARIED EMPLOYEES' RETIREMENT PLAN

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Dollar Amounts in Thousands)

Plan Year Ending	Covered Payroll	Actual Employer Contribution [1]	Actual Employer Contribution % [2]	Annual Required Contribution (ARC) % [2] [3]	Annual Pension Cost (APC) [3]	Percentage of ARC/APC Contributed	Net Pension Obligation [3]
6/30/2004	$4,219.8	$487.4	11.6%	11.6%	11.6%	100%	$0
6/30/2005	$4,310.3	$574.1	13.3%	13.3%	13.3%	100%	$0
6/30/2006	$4,630.5	$614.9	13.3%	13.3%	13.3%	100%	$0
6/30/2007	$4,774.0	$784.4	16.5%	16.5%	16.5%	100%	$0
6/30/2008	$5,130.2	$846.5	16.5%	16.5%	16.5%	100%	$0
6/30/2009	$5,463.6	$1,143.0	20.9%	16.8%	16.8%	125%	$(225.1)
6/30/2010	(5)	(5)	(5)	16.8%	(5)	(5)	(5)
6/30/2011	(5)	(5)	(5)	18.3%	(5)	(5)	(5)

(1) Computed as the dollar amount of the actual employer contribution made as a percentage of payroll.

(2) The actual and required employer contributions are expressed as a percentage of payroll.

(3) The District makes employer contributions as a percentage of actual payroll. Thus, as long as the percentage equals the percentage required by the most recent actuarial valuation, the dollar amount of the Annual Required Contributions (ARC) is equal to the actual dollar amount of the employer contributions.

(4) The actual employer contributions shown on this table was provided by the District.

(5) These amounts are not known as of the plan year ending June 30, 2009.

LANE TRANSIT DISTRICT
SALARIED EMPLOYEES' RETIREMENT PLAN

ACTUAL AND ESTIMATED PAYOUT OF RETIREMENT BENEFITS
July 1, 2009

PLAN YEAR BEGINNING	BENEFIT PAYMENT
1999	91,836
2000	147,556
2001	141,844
2002	140,202
2003	143,968
2004	192,095
2005	252,225
2006	318,082
2007	387,192
2008	435,421
2009	522,000
2010	654,000
2011	765,000
2012	872,000
2013	1,013,000
2014	1,137,000
2015	1,247,000
2016	1,372,000
2017	1,463,000
2018	1,568,000
2019	1,655,000
2020	1,721,000
2021	1,759,000
2022	1,787,000
2023	1,820,000
2024	1,832,000
2025	1,849,000
2026	1,854,000
2027	1,846,000
2028	1,831,000

LANE TRANSIT DISTRICT
SALARIED EMPLOYEES' RETIREMENT PLAN

ACTUARIAL PROCEDURES AND ASSUMPTIONS

This section of the report describes the actuarial procedures and assumptions used in this valuation. These procedures and assumptions have been chosen on the basis of recent experience of the plan, and current expectations as to future economic conditions.

The assumptions are intended to estimate the future experience of the members of the plan and of the plan itself in areas which affect the projected benefit flow and anticipated investment earnings. Any variations in future experience from that expected from these assumptions would result in corresponding changes in the estimated costs of the plan's benefits.

1. **ACTUARIAL COST METHOD (Adopted July 1, 2005)**

   Entry Age Normal Actuarial Cost Method

   A method under which the Actuarial Present Value of the Projected Benefits of each individual included in an Actuarial Valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age(s). The portion of the Actuarial Present Value allocated to a valuation year is called the Normal Cost. The portion of this Actuarial Present Value not provided for at a valuation date by the Actuarial Present Value of future Normal Costs is called the Actuarial Accrued Liability.

   Under this method the excess of the Actuarial Accrued Liability over the Actuarial Value of Assets is the Unfunded Actuarial Accrued Liability (Surplus).

   Under this method the Actuarial Gains (Losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

   The recommended contribution is equal to the Normal Cost plus an amortization of the Unfunded Actuarial Accrued Liability expressed as a level percentage of payroll in accordance with the District's funding policy.

   Beginning July 1, 2005, the Unfunded Accrued Liability is amortized over a closed 20-year period. Future gains or losses are amortized over a 20-year period beginning on the valuation date. Amortization payments are assumed to increase each year based on the salary inflation assumption at the time the base is established.

2. **RECORDS AND DATA**

   The data used in the valuation consist of financial information and records of age, service and income of contributing members. The data was supplied by the District and Kernutt, Stokes, Brandt & Co., LLP, and was accepted for valuation purposes without audit.

3. **ADMINISTRATIVE EXPENSE (Adopted July 1, 2009)**

   It is assumed that the amount required for administrative expenses will be $45,000 per year, payable at the beginning of the plan year.

4. VALUATION OF ASSETS (Adopted July 1, 2003)

The Actuarial Value of Assets is a Market related asset value. Market returns are smoothed over three years without phase-in as described in Internal Revenue Procedure 98-10.

5. INVESTMENT EARNINGS (Adopted July 1, 2005)

The future investment earnings of the assets of the plan are assumed to accrue at an annual rate of 7.5%, compounded annually, net of investment expenses.

6. FUTURE SALARIES

Individual salaries are assumed to increase 2.0% per annum on July 1, 2010 and July 1, 2011. Salary increases are assumed to be 5.0% per annum thereafter.

7. MORTALITY (Adopted July 1, 2003)

Mortality experience is expected to follow the RP-2000 Combined Healthy Mortality Tables for Males and Females for both active participants and retired participants.

8. TERMINATIONS FROM EMPLOYMENT OTHER THAN DEATH (Adopted July 1, 1999)

Years of Service	Rate of Termination
0	10%
1	10%
2	8%
3	8%
4	6%
5	6%
6 & Up	4%

9. RETIREMENT RATES (Adopted July 1, 1999)

The percentages are shown below:

Age	Rates of Retirement	Age	Rates of Retirement
55	5%	60	15%
56	5%	61	15%
57	5%	62	50%
58	10%	63	25%
59	10%	64	25%
		65	100%

10. CONSOLIDATED ANNUAL LEAVE (CAL) (Adopted July 1, 1999)

Each active member is assumed to have 360 hours of accrued and unused CAL at retirement and 180 hours of CAL at termination from employment for reasons other than retirement or death.

11. CHANGES IN ACTUARIAL METHOD AND ASSUMPTIONS

- Assumed future salary increases were changed from 5% per annum to 2% per annum for two years and 5% per annum thereafter.
- The assumed amount of administrative expenses was increased from $36,000 to $45,000.

LANE TRANSIT DISTRICT
SALARIED EMPLOYEES' RETIREMENT PLAN

PLAN PROVISIONS

1. **Name**

   Lane Transit District Salaried Employees' Retirement Plan

2. **Effective Date**

   The Plan was effective July 1, 1975. The plan was restated effective July 1,2002 and has subsequently been amended through the June 18, 2008 Sixth Amendment.

3. **Plan Year**

   Fiscal Year Ending June 30

4. **Type of Plan**

   The plan is a trusteed pension plan with a corporate trustee selected by the Employer. The Retirement Committee for the Salaried Plan, composed of the President of the Board and the General Manager of Lane Transit District, is responsible for the administration and operation of the plan.

5. **Employers Included**

   Lane Transit District

6. **Employees Included**

   All salaried employees of the District.

7. **Eligibility**

   Salaried employees are eligible on the earlier of first day of July or the first day of January following the day in which the employee was hired by the District. A salaried employee who was otherwise employed by the employer prior to salaried employment and who has a currently effective year of service is eligible on the first day of the month after becoming a salaried employee.

8. Credited Service

a. Benefit Credits

Benefit Credits for participants are based on all completed and partial plan years of employment while a salaried employee according to the following table:

Hours Worked or Compensated for in Plan Year	Benefit Credits
1,600 hours or more	1
1,200 to 1,600 hours	3/4
800 to 1,200 hours	1/2
400 to 800 hours	1/4

Participants not compensated on an hourly basis are credited with 45 hours per week of employment, regardless of the actual hours worked.

b. Vesting Credits

An Employee will receive one Vesting Credit for each Plan Year with the District in which he earns 1,000 or more hours of service. No Vesting Credit will be given for less than 1,000 hours in a Plan Year.

9. Normal Retirement

a. Eligibility

A participant is eligible for normal retirement on the first day of the month following his 60th birthday.

b. Benefit

The greater of (i) and (ii) below

(i) The amount of the monthly benefit payable for life is one-twelfth of 1.67% of Final Average Salary multiplied by the participant's Benefit Credits.

Final Average Salary is the average of the annual salary for a participant's three highest consecutive years of employment with the Employer, or all consecutive years if less than three, and includes total compensation while a member for those years. Such three consecutive years of employment shall be the 36 consecutive calendar months for which the Member's or Inactive Member's compensation was highest. Compensation includes payments for accrued and unused Consolidated Annual Leave upon termination of employment.

(ii) The amount of the monthly benefit is one-twelfth of 3.00% of the participant's Final Average Salary multiplied by the participant's Benefit Credits up to a maximum of 25, minus the participant's expected Social Security benefit payable at age 62.

10. Early Retirement

a. Eligibility

A participant may retire at any time after attaining age 55 providing he has five or more Vesting Credits, or at any age with 30 or more vesting credits.

b. Benefit

The benefit is the Normal Retirement Benefit reduced by 1/4% for the first 24 months by which the early retirement date precedes the normal retirement date, and by 2/3% for each additional month by which the early retirement date precedes the normal retirement date. However, there will be no reduction in the Normal Retirement Benefit for any participant who retires subsequent to accruing 30 Vesting Credits.

11. Delayed Retirement

a. Eligibility

A participant may elect to delay retirement after his Normal Retirement Date.

b. Benefit

The benefit is calculated in the same way as the Normal Retirement Benefit taking into account the age, service, and final average salary to actual date of retirement.

12. Disability

a. Eligibility

A participant with five or more Vesting Credits may receive a disability benefit at Normal Retirement if the following three conditions are met:

(1) The participant becomes totally and permanently disabled while in active employment;

(2) The participant is awarded a Social Security Disability benefit; and

(3) The participant has applied for a disability benefit under this plan.

b. Benefit

The benefit shall be the Normal Retirement Benefit based upon the salary history to the date of disability and Benefit Credits to the Normal Retirement Date. This benefit is payable at the Normal Retirement Date.

13. Death Benefit

a. Prior to Retirement

The survivor benefit is a monthly benefit payable for 120 months in an amount equal to the participant's vested monthly benefit payable at Normal Retirement at the time of the participant's death. This benefit is payable first to a surviving spouse, if any, next, to a named individual beneficiary, if any, and finally to any surviving child or children under the age of 18. If the benefit is payable to surviving children under the age of 18, it will be divided equally among them.

b. After Retirement

The benefit depends on the form of the retirement benefit elected by the participant.

14. Termination of Employment

a. Vesting

An Employee hired before January 1, 2000 will be 20% vested for each Vesting Credit up to a maximum of 100%. An employee hired after December 31, 1999 will be 0% vested until the employee has accrued five vesting credits, at which point the employee will become 100% vested.

Also, a participant is 100% vested when eligible for early or normal retirement.

b. Benefit

On the first of the month following the terminated participant's 60th birthday, benefit payments will commence equal to the product of the Normal Retirement Benefit (based on service and salary at the time of termination) and his vested percentage. If the participant has five or more Vesting Credits, he may elect to receive an actuarially reduced benefit at any time after attaining age 55.

15. Contributions

a. Employee

Employees may contribute up to 10% of pay on a voluntary basis.

b. Employer

The Employer will make contributions necessary to fund the Plan's Part 1 benefits on a sound actuarial basis. The Employer shall also contribute a total of 6% to fund the Plan's Part 2 benefits for Eligible Members.

16. Hourly Plan and Salaried Plan Benefit Coordination

If an employee is covered under the Lane Transit District and Amalgamated Transit Union Pension Plan and the Salaried Plan, his Vesting Service under one plan will be used to avoid a Break in Service under the other plan. Combined Credited Service earned under both plans will be used to vest under each plan.

The employee's total monthly retirement benefit will be the sum of the monthly benefit earned under the hourly plan (based on service under the hourly plan) and the monthly benefit under the salaried plan (based on service under the salaried plan). The portion of the benefit earned under each plan will be paid by the respective plan. This total benefit will not be less than the hourly benefit calculated by using the salaried service in addition to his hourly service. Any such increase in the total benefit will be paid by the hourly plan.

17. Plan Changes Since Last Valuation

None.

LANE TRANSIT DISTRICT
SALARIED EMPLOYEES' RETIREMENT PLAN

PARTICIPANT INFORMATION

The following table shows the number of participants included in the current actuarial valuation.

	Current Valuation 7/01/09	Current Valuation 7/01/07
Active Participants		
Anticipated Annual Compensation	$5,216,585	$4,705,218
Average Age	49.4	49.3
Average Vesting Service	12.5	12.1
Age 65 & Over	1	2
Fully Vested Participants	59	60
Partially Vested Participants	0	0
Non-Vested Participants	22	16
TOTAL ACTIVE	82	78
Inactive Participants		
Retirees and Beneficiaries	36	32
Vested Terminations	40	40
Hourly Transfers	4	4
TOTAL INACTIVE	80	76
TOTAL PARTICIPANTS	162	154

The total anticipated annual compensation for active members under normal retirement age is $5,216,585 for the plan year ended June 30, 2010. The comparable figure for the previous valuation was $4,705,218 for the plan year ended June 30, 2008. The average anticipated salary per member under age 65 was $64,402 this year, an increase from the average anticipated salary of $61,910 in the prior valuation.

LANE TRANSIT DISTRICT
SALARIED EMPLOYEES' RETIREMENT PLAN

ACTIVE PARTICIPANTS
(As of July 1, 2009)

	Years of Vesting Service							
	0 to 4		5 to 9		10 to 14		15 to 19	
Age	Count	Average Anticipated Salary	Count	Average Anticipated Salary	Count	Average Anticipated Salary	Count	Average Anticipated Salary
Under 30	4	$ 57,581	2	$ 54,984	0	$ 0	0	$ 0
30 to 34	3	47,536	0	0	1	65,994	0	0
35 to 39	1	57,643	1	52,052	1	78,995	0	0
40 to 44	2	50,209	3	55,977	1	43,974	2	53,825
45 to 49	4	46,278	1	50,347	3	61,599	1	70,613
50 to 54	8	54,782	4	69,855	3	88,725	5	67,232
55 to 59	0	0	0	0	8	68,614	2	82,516
60 & Up	0	0	2	71,825	0	0	2	63,835
Totals	22	$ 52,471	13	$ 61,797	17	$ 69,932	12	$ 67,260

	Years of Vesting Service							
	20 to 24		25 to 29		30 & Up		All Years	
Age	Count	Average Anticipated Salary	Count	Average Anticipated Salary	Count	Average Anticipated Salary	Count	Average Anticipated Salary
Under 30	0	$ 0	0	$ 0	0	$ 0	6	$ 56,715
30 to 34	0	0	0	0	0	0	4	52,151
35 to 39	0	0	0	0	0	0	3	62,897
40 to 44	0	0	0	0	0	0	8	52,497
45 to 49	0	0	1	105,970	0	0	10	59,684
50 to 54	1	47,054	1	75,557	1	70,613	23	65,792
55 to 59	5	64,669	3	79,851	3	71,990	21	71,086
60 & Up	1	47,054	2	101,888	0	0	7	74,593
Totals	7	$ 59,636	7	$ 89,265	4	$ 71,646	82	$ 64,422

LANE TRANSIT DISTRICT
AND AMALGAMATED TRANSIT UNION,
LOCAL NO. 757, PENSION TRUST

ACTUARIAL VALUATION
As of January 1, 2010

Prepared By

Peter R. Sturdivan, FSA, EA, MAAA
Principal and Consulting Actuary

and

Ryan B. Lane, EA, MAAA
Consulting Actuary

Milliman

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August 20, 2010

Trustees
Lane Transit District and
Amalgamated Transit Union,
Local No. 757, Pension Trust

Dear Trustees:

At your request, we have completed an actuarial valuation of the Lane Transit District and Amalgamated Transit Union, Local No. 757, Pension Trust as of January 1, 2010 for determining the recommended contribution for the fiscal years beginning July 1, 2010 and July 1, 2011 and for fulfilling accounting requirements under GASB Statements No. 25, 27 and 50. The results of the valuation are contained in the following report and are summarized in Section 2. This report reflects the benefit provisions in effect as of January 1, 2010.

In preparing our report, we relied without audit upon the employee and financial data furnished by Kernutt Stokes Brandt & Co, LLP. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes. We also relied on the Plan document and amendments provided by the Plan's attorney. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is inaccurate or incomplete, our calculations may need to be revised.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board and the applicable Guides to Professional Conduct, amplifying Opinions, and supporting Recommendations of the American Academy of Actuaries.

All costs, liabilities, rates of interest, and other factors for the Plan have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the Plan and reasonable expectations). We further certify that, in our opinion, each actuarial assumption used is reasonably related to the past experience of the Plan and to reasonable expectations which, in combination, represent our best estimate of anticipated experience under the Plan. Nevertheless, the emerging costs will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.

Actuarial computations presented in this report are for purposes of determining the recommended funding levels for the Lane Transit District and Amalgamated Transit Union, Local No. 757, Pension Trust. Actuarial computations under GASB Statement No. 25 are for purposes of fulfilling financial accounting requirements. The computations for these two purposes may differ as disclosed in the report. The calculations in the enclosed report have been made on a basis consistent with our understanding of the Trustees' funding policies and GASB Statement No. 25, 27 and 50. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, different determinations may be needed for other purposes.

Milliman's work product was prepared exclusively for the Trustees of the Lane Transit District and Amalgamated Transit Union Local No. 757, Pension Trust for a specific and limited purpose. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exception(s):

(a) The Trustees may provide a copy of Milliman's work, in its entirety, to the Plan's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the Plan.

(b) The Trustees may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs. The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

We respectfully submit the following report, and we look forward to discussing it with you. We are actuaries for Milliman, Inc. We are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,

Peter R. Sturdivan, FSA, EA, MAAA
Principal and Consulting Actuary

Ryan B. Lane, EA, MAAA
Consulting Actuary

PRS:rbl
encl.

LANE TRANSIT DISTRICT AND AMALGAMATED TRANSIT UNION, LOCAL NO. 757, PENSION TRUST

ACTUARIAL VALUATION AS OF JANUARY 1, 2010

TABLE OF CONTENTS

LANE TRANSIT DISTRICT AND AMALGAMATED TRANSIT UNION, LOCAL NO. 757, PENSION TRUST

SECTION 1

SCOPE OF THE REPORT

This report presents the results of the actuarial valuation for the plan year beginning January 1, 2010. The purpose of this valuation is to determine the funded status of the plan as of January 1, 2010, develop the recommended contribution for the fiscal years beginning July 1, 2010 and July 1, 2011 and for fulfilling accounting requirements under GASB Statements No. 25, 27 and 50.

A summary of the findings resulting from this valuation is presented in Section 2 of the report. The discussion found in Section 3 describes the actuarial concepts and methods upon which the findings are based. Tables 1 through 7 of that section summarize the calculations that led to our findings.

Tables 8 and 9 contain figures which your auditors may require for the preparation of the Plan's financial statements.

Appendix A outlines the benefit and contribution provisions of the plan.

All of the calculations of the valuation were carried out using certain assumptions as to the future experience of the plan in matters affecting the actuarial cost. Appendix B summarizes the most important of these assumptions and describes the actuarial procedures used to calculate costs.

The membership data that was supplied to us is summarized in Appendix C.

LANE TRANSIT DISTRICT AND AMALGAMATED TRANSIT UNION, LOCAL NO. 757, PENSION TRUST

SECTION 2

SUMMARY OF THE FINDINGS

The following is a summary of the more important figures developed in this valuation, together with comparable figures from the prior valuation report.

	January 1, 2008	January 1, 2010
Covered Active Members	242	241
Compensable Hours Worked in Previous Year	499,752	504,979
Average Hours	2,065	2,095
Average Age	50.3	51.0
Average Years of Employment	11.0	11.6
Plan Assets		
Market Value	$ 14,474,571	$ 13,883,592
Actuarial Value	14,577,988	14,693,502
Investment Rate of Return*		
Market Value	6.70%	(8.12)%
Actuarial Value	5.46%	(5.13)%
Valuation Contribution Rate		
Per Active Member	$ 7,573	$ 8,867
Cents Per Hour	$ 3.67	$ 4.23

* Compound annual rate for the two-year period ending on the valuation date.

Based on the calculated valuation contribution rate of $4.23 per hour, we have developed the following recommended contribution rates effective July 1, 2010 and July 1, 2011:

Period	Recommended Hourly Contribution Rate
July 1, 2010 - June 30, 2011	$4.28
July 1, 2011 and thereafter	$4.26

The above contribution schedule reflects the time between the valuation date and the District's implementation of the valuation results.

The changes in the status of the Plan's funding since the last valuation is detailed below:

Valuation Contribution Rate and Funded Status Reconciliation

	Valuation Contribution Rate	Funded Status
January 1, 2008 Valuation	$ 3.67	55.7%
Changes		
Expected Improvement in Funded Status	$ (0.13)	8.5%
Change in Mortality Assumptions	0.02	(0.1)
Change in Salaried Transfer Assumptions	(0.02)	0.2
Investment (Gains) or Losses	0.70	(13.1)
Other Net (Gains) or Losses	(0.01)	0.0
Total Change	$ 0.56	(4.5)%
January 1, 2010 Valuation	$ 4.23	51.2%

The contribution rate based on the January 1, 2010 Valuation increased primarily due to investment returns less than the assumed 7.50% rate of return. The District's additional $475,000 contribution in June 2009 is reflected in the $0.13 contribution rate decrease shown above. The Plan's investment return for the two-year period ending December 31, 2009 is summarized below:

	Market Value	Actuarial Value
2008 Investment Rate of Return	(30.94)%	(17.40)%
2009 Investment Rate of Return	22.25%	8.96%
Compound Annual Return for 2008-2009	(8.12)%	(5.13)%

As a result, the Plan experienced an actuarial loss on assets of $3,773,387. Additional investment losses of $809,910 are currently being deferred by the Plan's asset valuation method. These losses will be recognized over the next three years.

The recommended contribution rate was also impacted by the following assumption changes that were made since the last valuation:

- To reflect historical and anticipated improvements in mortality, the mortality tables for healthy participants were updated from the 1994 Uninsured Pensioner Mortality Tables for Males and Females to the RP-2000 Mortality Tables for Males and Females with the adjustment for "blue collar" rates, projected to 2010 using projection scale AA.
- Participants who transfer to a salaried position are assumed to retire at age 60. Previously it was assumed that they would retire at their earliest unreduced retirement age.

SECTION 3

DISCUSSION OF THE VALUATION

A fundamental principle in financing the liabilities of a retirement program is that the cost of its benefits should be related to when those benefits are earned, rather than to when they are paid. There are a number of methods in use for making such a determination.

The method used for this valuation is technically referred to as the Individual Entry Age Normal Actuarial Cost Method with Normal Cost expressed as a level dollar amount. This method produces a recommended contribution equal to the Normal Cost plus an amortization of the Unfunded Actuarial Accrued Liability expressed as a level dollar amount. This method is described in detail in Appendix B of this report.

ACTUARIAL VALUE OF ASSETS

Table 1 details the change in the Plan's Market Value of Assets since the last valuation. This information is based on the financial data provided by Kernutt Stokes Brandt & Co., LLP.

Table 2 shows the derivation of the Actuarial Value of Assets based on three year smoothing without phase-in as defined by Internal Revenue Procedure 98-10.

ACTUARIAL BALANCE SHEET

Table 3 shows the development of the Plan's Unfunded Actuarial Accrued Liability as of January 1, 2010.

Table 4 is the actuarial balance sheet as of January 1, 2010 based on our procedures and assumptions. The Resources equal the Requirements and can be thought of as the amount of funds resulting from:

(1) the plan's Actuarial Value of Assets, plus

(2) the Actuarial Present Value of Future Normal Costs to be contributed by the District in the future, plus

(3) the Actuarial Present Value of Future Payments to amortize the Unfunded Actuarial Accrued Liability.

The Actuarial Present Value of Benefits is the estimated single sum required on January 1, 2010 which, together with future interest earnings, would accumulate to provide all benefits due to current plan members under the plan in the future.

NORMAL COST

Table 5 shows the Plan's Normal Cost as of January 1, 2010. The Normal Cost can be thought of as the cost of benefits accruing during the year that will be paid in the future as retirement, termination, or death benefits.

The normal cost calculated in this report is expected to remain stable as long as:

(1) Experience remains reasonably close to that expected according to the actuarial assumptions; and

(2) Current eligibility and benefit provisions remain unchanged.

RECOMMENDED CONTRIBUTION SCHEDULE

Table 7 develops the recommended contribution schedule for the Plan. The recommended annual contribution consists of two pieces:

(1) Gross Normal Cost (including a provision for anticipated expenses)

(2) Amortization of the Unfunded Accrued Actuarial Liability (UAAL)

The resulting contribution is then stated in terms of a contribution rate per compensable hour based on the hours worked by the active population in the year prior to the valuation date.

The Plan's UAAL is amortized as a level dollar amount over a 20-year closed amortization period. The calculation of the January 1, 2010 amortization payment is shown on *Table 6*.

ACCOUNTING STANDARDS

Table 8 and *Table 9* contain figures which your auditors may require for the preparation of the Plan's financial statements under the following standard issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 25 - Financial Reporting by Plans. Generally, Statement No. 25 requires a summary of the funded status of the plan, and a statement on the relationship of the actual annual contributions to an annual required contribution (ARC).

GASB Statement No. 27 - Employer's Accounting certain disclosures are required in the employer's financial statements including the annual pension cost (APC). Generally, the APC will equal to the employer's ARC, as actuarially determined by the funding methods and assumptions. If the actual contribution is either more or less than the ARC, than a Net Pension Obligation must be determined, and this amount may be required to be disclosed in the General Long Term Debt Account Group (GLTDAG) of the District's financial statements.

GASB Statement No. 50. The Government Accounting Standards Board issued GASB Statement No. 50 in May 2007, which amended GASB 25 and GASB 27. This new statement requires defined benefit plans and employers to present additional disclosure information. To the best of our knowledge, the information in this report contains sufficient information to comply with the requirements of GASB 50.

APPENDICES

This valuation is based on the benefits in effect under the 2001 restatement of the Plan, as amended through Amendment 10, which are summarized in Appendix A.

Actuarial calculations are based on certain actuarial methods and assumptions about the future experience of the Plan. These methods and assumptions are summarized in Appendix B. Although these assumptions are based on our best estimates of the future experience of the plan, and the District contribution rate is correspondingly our best estimate of the proper rate, this rate is subject to change as future experience is realized or the plan is amended.

All of the calculations in this report are based on participant information provided by Kernutt Stokes Brandt & Co., LLP. This information is summarized in Appendix C. If any of the participant data provided is inaccurate or incomplete, our calculations may need to be revised.

LANE TRANSIT DISTRICT AND AMALGAMATED TRANSIT UNION, LOCAL NO. 757, PENSION TRUST

MARKET VALUE OF ASSETS
(January 1, 2010)

Summary of Statement of Changes in Net Assets Available for Benefits

		2008	2009
(1)	Market Value of Assets January 1	$ 14,474,571	$ 10,376,923
(2)	Employer Contributions	1,763,657	2,411,644
(3)	Benefit Payments	1,243,049	1,285,611
(4)	Administrative Expenses	70,434	48,330
(5)	Investment Income Net of Investment Expenses	(4,547,822)	2,428,966
(6)	Market Value of Assets December 31 (1)+(2)–(3)–(4)+(5)	$ 10,376,923	$ 13,883,592

Source: Unaudited financial information provided by Kernutt Stokes Brandt & Co., LLP in an April 20, 2010 e-mail.

LANE TRANSIT DISTRICT AND AMALGAMATED TRANSIT UNION, LOCAL NO. 757, PENSION TRUST

ACTUARIAL VALUE OF ASSETS
(January 1, 2010)

Asset Reconciliation

Year	(1) Market Value of Assets January 1	(2) Employer Contributions	(3) Benefit Payments	(4) Administration Expenses	(5) Cash Flow (2)-(3)-(4)	(6) Actual Investment Income	(7) Market Value of Assets End of Year (1)+(5)+(6)
2009	$10,376,923	$2,411,644	$1,285,611	$48,330	$1,077,703	$2,428,966	$13,883,592
2008	14,474,571	1,763,657	1,243,049	70,434	450,174	(4,547,822)	10,376,923

Actuarial Value of Assets

Year	Actual Investment Rate of Return [1]	Actual Investment Return	Expected 7.5% Investment Return [2]	Difference between Actual and Expected
2009	22.3%	$2,428,966	$ 818,683	$ 1,610,283
2008	(30.9)	(4,547,822)	1,102,474	(5,650,296)

(1) Based on market value.

(2) Using simple interest and assuming contributions, benefit payments and expenses occur at mid-year.

Market Value of Assets on January 1, 2010	$ 13,883,592
Subtract 2/3 of $1,610,283 gain	(1,073,522)
Add 1/3 of $5,650,296 loss	1,883,432
Actuarial Value of Assets on January 1, 2010	$ 14,693,502
Actuarial Value as a Percentage of Market Value	106%

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LANE TRANSIT DISTRICT AND AMALGAMATED TRANSIT UNION, LOCAL NO. 757, PENSION TRUST

DEVELOPMENT OF UNFUNDED ACTUARIAL ACCRUED LIABILITY (January 1, 2010)

Unfunded Actuarial Accrued Liability January 1, 2008		$ 11,599,341
Changes from January 1, 2008 through December 31, 2009		
Gross Normal Costs	$ 1,335,516	
Contributions	(4,175,301)	
Interest	1,665,340	
Total		(1,174,445)
Expected Unfunded Actuarial Accrued Liability as of December 31, 2009		$ 10,424,896
Change in Mortality Assumptions		61,381
Change in Salaried Transfer Assumptions		(147,653)
Investment (Gain)/Loss		3,773,387
Expense (Gain)/Loss		21,128
Other Actuarial (Gain)/Loss		(115,467)
Unfunded Actuarial Accrued Liability January 1, 2010		$ 14,017,672

LANE TRANSIT DISTRICT AND AMALGAMATED TRANSIT UNION, LOCAL NO. 757, PENSION TRUST

ACTUARIAL BALANCE SHEET
(January 1, 2010)

REQUIREMENTS

Actuarial Present Value of Benefits	
Active Members (241)	
Retirement Benefits	$ 16,940,322
Death Benefits	293,227
Disability Benefits	573,312
Termination Benefits (Vesting)	748,435
Subtotal	$ 18,555,296
Retirees, Beneficiaries and Disabled Participants (171)	11,783,338
Employee Participation Accounts Payable (5)	6,102
Vested Terminated Participants (28)	980,092
Salaried Plan Transfers (30)	1,042,037
Total Requirements	$ 32,366,865

RESOURCES

Actuarial Value of Assets	$ 14,693,502
Actuarial Present Value of Future Entry Age Normal Costs	3,655,691
Unfunded Accrued Actuarial Liability	14,017,672
Total Resources	$ 32,366,865

LANE TRANSIT DISTRICT AND AMALGAMATED TRANSIT UNION, LOCAL NO. 757, PENSION TRUST

NORMAL COST
(January 1, 2010)

(1)	Retirement Benefits	$ 502,411	
	Death Benefits	11,844	
	Disability Benefits	29,781	
	Termination Benefits	89,087	
	Total Annual Normal Cost, Payable Beginning of Year		$ 633,123
(2)	Anticipated Expenses $50{,}000 \div (1.075)^{1/2}$		48,224
(3)	Gross Annual Normal Cost, Payable Beginning of Year (1) + (2)		$ 681,347

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LANE TRANSIT DISTRICT AND AMALGAMATED TRANSIT UNION, LOCAL NO. 757, PENSION TRUST

AMORTIZATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY (January 1, 2010)

Date Established	Original Amount	Years Remaining	Amortization Payment	Outstanding Balance
1/1/2006	$9,470,806	16	$ 864,197	$ 8,492,572
1/1/2008	2,582,340	18	235,635	2,458,603
1/1/2010	3,066,497	20	279,813	3,066,497
			$ 1,379,645	$ 14,017,672

LANE TRANSIT DISTRICT AND AMALGAMATED TRANSIT UNION, LOCAL NO. 757, PENSION TRUST

DETERMINATION OF RECOMMENDED CONTRIBUTION RATE (January 1, 2010)

(1)	Total Annual Normal Cost	$ 681,347
(2)	Amortization Payment (see Table 6)	1,379,645
(3)	Total Contribution for Year, Payable at Beginning of Year (1) + (2)	$ 2,060,992
(4)	Total Contribution for Year, Payable Mid-Year $(3) \times (1.075)^{1/2}$	$ 2,136,882
(5)	Estimated Annual Compensable Hours	504,979
(6)	Valuation Contribution Rate per Compensable Hour (4) ÷ (5)	$4.23
(7)	Recommended Contribution Rate effective July 1, 2011	$4.26*

* A contribution rate of $3.69 through June 30, 2010, with an increase to $4.28 effective July 1, 2010, and then decreased to $4.26 effective July 1, 2011, is actuarially equivalent to a contribution rate of $4.23 per hour effective January 1, 2010.

Table 8

LANE TRANSIT DISTRICT AND AMALGAMATED TRANSIT UNION, LOCAL NO. 757, PENSION TRUST

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollar Amounts In Thousands)

Plan Year Ending	Actual Employer Contributions[(1)]	Actual Employer Contribution [(2)]	Annual Required Contribution (ARC) [(2) (3)]	Annual Required Contribution (ARC)[(3)]	Percentage of ARC Contributed
12/31/04	$960.1	$ 1.74 thru 6/30/04 $ 2.05 thru 12/31/04	$ 1.74 thru 6/30/04 $ 2.05 thru 12/31/04	$960.1	100%
12/31/05	$1,034.9	$ 2.05 thru 6/30/05 $ 2.35 thru 12/31/05	$ 2.05 thru 6/30/05 $ 2.35 thru 12/31/05	$1,034.9	100%
12/31/06	$1,265.0	$ 2.35 thru 6/30/06 $ 2.85 thru 12/31/06	$ 2.35 thru 6/30/06 $ 2.85 thru 12/31/06	$1,265.0	100%
12/31/07	$1,493.5	$ 2.85 thru 6/30/07 $ 3.21 thru 12/31/07	$ 2.85 thru 6/30/07 $ 3.21 thru 12/31/07	$1,493.5	100%
12/31/08	$1,763.7	$ 3.21 thru 6/30/08 $ 3.69 thru 12/31/08	$ 3.21 thru 6/30/08 $ 3.69 thru 12/31/08	$1,763.7	100%
12/31/09	$2,411.6	$ 3.69 thru 6/30/09 $ 3.69 thru 12/31/09	$ 3.69 thru 6/30/09 $ 3.69 thru 12/31/09	$1,936.6[(4)]	125%

(1) The actual employer contribution made as an amount per compensable hour.

(2) The actual employer contributions are expressed as an amount per compensable hour.

(3) The District makes employer contributions as an amount per compensable hour. The amount equals what is required by the current collective bargaining agreement, and that amount amortizes the unfunded liability as required by GASB, thus, the dollar amount of the Annual Required Contribution (ARC) is equal to the actual dollar amount of the employer contributions, unless the District makes additional employer contributions.

(4) In June 2009, the District made an additional employer contribution of $475,000.

LANE TRANSIT DISTRICT AND AMALGAMATED TRANSIT UNION, LOCAL NO. 757, PENSION TRUST

SCHEDULE OF FUNDING PROGRESS

(Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets[(1)]	Actuarial Accrued Liabilities (AAL)[(2)]	Unfunded Actuarial Accrued Liabilities (UAAL)[(3)]	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2006	$12,715.2	$22,186.0	$ 9,470.8	57.3%	$ 9,459.2	100.1%
January 1, 2008	14,578.0	26,177.3	11,599.3	55.7%	10,761.6	107.8%
January 1, 2010	14,693.5	28,711.2	14,017.7	51.2%	11,719.2	119.6%

(1) The asset valuation method used in determining the actuarial value of assets is the 3-year smoothed market value method.

(2) Determined using the Entry Age Actuarial Cost Method.

(3) Actuarial accrued liabilities less actuarial value of assets.

LANE TRANSIT DISTRICT AND AMALGAMATED TRANSIT UNION, LOCAL NO. 757, PENSION TRUST

PLAN PROVISIONS

1. **NAME**

   Lane Transit District - Amalgamated Transit Union Local No. 757 Pension Trust.

2. **EFFECTIVE DATE**

   March 1, 1972.

3. **ELIGIBILITY**

   All bargaining unit employees who have completed six months of employment.

4. **CREDITED SERVICE**

   (a) Credited Past Service

   Years and completed months of employment of each employee as of March 1, 1972.

   (b) Current Service

   Current Service is based on the total credited hours by a participant in covered employment during a calendar year. Current Service is determined according to the following table:

1,600 or more hours	1 Year of Current Service
1,200 or more, but less than 1,600 hours	3/4 Year of Current Service
800 or more, but less than 1,200 hours	1/2 Year of Current Service
400 or more, but less than 800 hours	1/4 Year of Current Service

   Up to one-half year of Current Service may be credited for the period of employment before an employee is eligible to join the plan.

5. NORMAL RETIREMENT

(a) Eligibility

The Normal Retirement Age for a participant who retires on or after July 1, 2000 is age 60. The Normal Retirement Age for Participants terminated prior to July 1, 2000 is age 62.

(b) Benefit

An employee participation account will be maintained for each employee based on the contributions allocated to his account. Each participant's employee participation account will be credited with $.10 for each credited hour reported for the plan year. The value of the employee participation account will fluctuate depending on the investment results achieved on the plan assets.

At retirement the value of the participant's account will be determined and will be used to provide a monthly benefit based on the table of factors adopted by the Trustees as shown below:

Age (Last Birthday at Retirement)	Monthly Basic Benefit Per $1,000 in Employee Participation Account
55	$ 7.07
56	7.21
57	7.35
58	7.50
59	7.65
60	7.82
61	8.00
62	8.19
63	8.39
64	8.61
65	8.83
66	9.07
67	9.32
68	9.59
69	9.87
70	10.17
71	10.49
72	10.83

If the monthly retirement benefit payable from a participant's account is less than the minimum benefit, the participant's benefit will be increased to the minimum level.

A participant's minimum benefit is determined by multiplying the participant's total Current Service plus his total Credited Past Service (up to a maximum of five years) times the applicable benefit multiplier from the following table:

Termination of Employment	Benefit Multiplier
On or after July 1, 2001 and before July 1, 2002	$ 48.00
On or after July 1, 2002 and before July 1, 2003	$ 53.00
On or after July 1, 2003 and before December 9, 2007	$ 55.00
On or after December 9, 2007 and before July 1, 2008	$ 60.00
On or after July 1, 2008 and before July 1, 2009	$ 63.00
On or after July 1, 2009	$ 64.00

Despite the above, the minimum benefit of a Participant whose Termination of Employment and Retirement Date both occur on or after July 1, 2007 and before December 9, 2007 is $60.

The monthly benefit will be payable for life with a guarantee that if the participant dies after becoming eligible for the normal retirement benefit, payments will be made to the participant's beneficiary until a total of 36 monthly payments have been made to the participant and beneficiary.

6. EARLY RETIREMENT

(a) Eligibility

A participant may retire prior to his normal retirement date if he has 10 years of Credited Past and Current Service and is at least 55 years of age, or at any age if the participant has at least 30 years of Credited Past and Current Service.

(b) Benefit

The monthly basic benefit is determined from the preceding table. The minimum benefit will not be reduced if a participant has at least 30 years of Credited Past and Current Service. Otherwise, the minimum benefit will be reduced according to the following table:

Age at Retirement	Percentage Reduction
59	3%
58	6%
57	14%
56	22%
55	30%

7. DISABILITY BENEFIT

(a) Eligibility

A participant may receive a disability benefit if he becomes totally disabled while employed with the District, remains totally disabled for at least five months, terminates employment with the District, and has at least three years of Credited Service. The Trustees will determine the existence of a disability. A participant will only remain eligible to continue receiving disability benefits for a period in excess of three years if the participant is entitled to receive disability insurance benefits under Title II of the Federal Social Security Act as finally determined by the Social Security Administration.

(b) Benefit

A monthly benefit is payable for the duration of the disability beginning after the fifth month of disability (or termination of employment, if later). The amount of the benefit is determined by converting the value of the participant's account to a monthly annuity as if he were age 62, but the amount will be no less than the minimum normal benefit based on his years of Credited Service earned as of the end of the fifth month of total disability.

8. TERMINATION OF EMPLOYMENT

A participant who terminates his employment with the district will forfeit all years of Credited Service and all contributions credited to his account unless he has at least three years of Current Service as of the date of termination. If he has at least three years of Current Service but less than five years of Credited Service, he will receive the accumulated value of his account. If he has at least three years of Current Service and five or more years of Credited Service, he may elect to leave his Employee Participation Account on deposit in the Trust and will be eligible to receive retirement benefits when eligible.

9. CONTRIBUTIONS

Contributions are made to the Trust Fund by the District. The District intends to contribute the amounts calculated by the actuary to adequately fund the benefits provided in the Plan.

10. ALLOCATION OF INVESTMENT INCOME

At the end of each year the total net investment income will be allocated to the respective individual and general accounts prorated according to the balance in each account. The rate of return at which individual accounts are credited is determined by the Trustees in their sole discretion.

11. PRE-RETIREMENT DEATH BENEFIT

(i) After Early Retirement Eligibility

The deceased participant's spouse will receive 50% of the amount the deceased participant would have received if he had retired on his date of death and the 50% joint and survivor annuity had been selected, taking into account the early retirement factor and the joint and survivor option factor.

(ii) Married and before Early Retirement Eligibility with at Least Five Years of Credited Service

The married participant is assumed to have terminated on his date of death, survived to age 55, selected the 50% joint and survivor option, and died the next day. The benefit is payable on the participant's earliest retirement date. The participant must have at least one year of Current Service.

(iii) Unmarried and/or Have Less than Five Years of Credited Service

The accumulated value in a participant's account will be paid to his beneficiary if he dies prior to retirement. The participant must have at least three years of Credited Service.

12. PLAN CHANGES SINCE LAST VALUATION

None.

LANE TRANSIT DISTRICT AND AMALGAMATED TRANSIT UNION, LOCAL NO. 757, PENSION TRUST

ACTUARIAL ASSUMPTIONS AND METHODS

This section of the report describes the actuarial procedures and assumptions used in this valuation. These procedures and assumptions have been chosen on the basis of recent experience of the plan and on current expectations as to future economic conditions.

The assumptions are intended to estimate the future experience of the members of the plan and of the plan itself in areas which affect the projected benefit flow and anticipated investment earnings. Any variations in future experience from that expected from these assumptions will result in corresponding changes in the estimated costs of the plan's benefits.

1. ACTUARIAL COST METHOD

The accruing costs of all benefits are measured by the Individual Entry Age Normal Cost Method. Under this method, the Actuarial Present Value of the Projected Benefits of each individual included in the Actuarial Valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age(s). The portion of the Actuarial Present Value allocated to a valuation year is called the Normal Cost. The portion of the Actuarial Present Value not provided for at a valuation date by the Actuarial Present Value of Future Normal Costs is called the Actuarial Accrued Liability.

2. RECORDS AND DATA

The data used in the valuation consist of employee and financial information furnished by Kernutt Stokes Brandt & Co., LLP. All data for valuation purposes was accepted without audit.

3. ADMINISTRATIVE EXPENSE

It is assumed that the amount required for investment related expenses will be met from earnings in excess of the 7.50% rate of investment earnings assumed for this valuation. Additional annual administrative expenses of $50,000 per year (payable at the middle of the year) are also assumed.

4. VALUATION OF ASSETS

Market related value. Three-year smoothing of market returns without phase-in as defined by Internal Revenue Procedure 98-10.

5. AMORTIZATION PERIOD

The Unfunded Actuarial Accrued Liability as of the valuation date is amortized as a level dollar amount over a closed amortization period of 20 years.

6. INVESTMENT EARNINGS

The future investment earnings of the assets of the plan are assumed to accrue at an annual rate of 7.50%, net of investment expenses.

7. FUTURE CONTRIBUTIONS TO EMPLOYEE PARTICIPATION ACCOUNTS PER PARTICIPANT

The future contributions to each participant's account were assumed to remain at the 10¢ level with new participants' contributions annualized. Accounts are assumed to grow with interest earned at the same rate of return as the plan assets.

8. FUTURE SERVICE CREDITS

Participants were assumed to earn future service credits at a rate based on their annualized 2009 compensable hours.

9. SERVICE RETIREMENT

The rates of retirement used in this valuation are illustrated below.

Age	Annual Rate
55 - 57	5%
58 - 59	10
60 - 61	15
62	50
63 - 64	25
65	50
66 - 69	35
70	100

Vested terminated participants are assumed to retire at their earliest unreduced retirement age. Participants who transfer to a salaried position are assumed to retire at age 60.

10. DISABLEMENT

The rates of disablement used in this valuation are illustrated below.

Age	Number of Participants Becoming Disabled During the Year Per 1,000 Actives
30	1
35	1
40	1
45	2
50	2
55	4
60	8

11. MORTALITY

The rates of mortality used in this valuation are represented by the RP-2000 Mortality Tables for Males and Females with the adjustment for "blue collar" rates, projected to 2010 using projection scale AA. For disabled retirements, participant mortality follows the mortality tables specified in Revenue Ruling 96-7 for disabilities in plan years beginning after December 31, 1994.

12. OTHER TERMINATIONS OF EMPLOYMENT

The rates of assumed future withdrawal from active service for reasons other than death, disability or retirement are shown below for representative ages:

Years of Service	Annual Rate
Under 1	25%
1 to 2	8%
3 to 20	3%
Over 20	0%

13. MARRIAGE

100% of non-retired participants were assumed married. Wives were assumed to be three years younger than their husbands.

14. CHANGES IN ACTUARIAL METHODS AND ASSUMPTIONS

- To reflect historical and anticipated improvements in mortality, the mortality tables for healthy participants were updated from the 1994 Uninsured Pensioner Mortality Tables for Males and Females to the RP-2000 Mortality Tables for Males and Females with the adjustment for "blue collar" rates, projected to 2010 using projection scale AA.

- Participants who transfer to a salaried position are assumed to retire at age 60. Previously it was assumed that they would retire at their earliest unreduced retirement age.

LANE TRANSIT DISTRICT AND AMALGAMATED TRANSIT UNION, LOCAL NO. 757, PENSION TRUST

PARTICIPANT INFORMATION

The current actuarial valuation was based upon the participant data provided by Kernutt Stokes Brandt & Co., LLP.

The following table shows the number of participants included in the current actuarial valuation and the previous valuation.

	January 1, 2008	January 1, 2010	Change
Active			
Age 65 & Over	9	12	+3
Other Vested Participants	179	185	+6
Non-Vested Participants	54	44	-10
TOTAL ACTIVE	242	241	-1
Inactive			
Retirees, Beneficiaries & Disabled Participants	164	171	+7
Vested Terminations	22	28	+6
Salaried Transfers	28	30	+2
EPA Account Payable	8	5	-3
TOTAL INACTIVE	222	234	+12
TOTAL PARTICIPANTS	464	475	+11

More detailed information on current plan participants is shown on the following pages.

LANE TRANSIT DISTRICT AND AMALGAMATED TRANSIT UNION, LOCAL NO. 757, PENSION TRUST

ACTIVE PARTICIPANTS
(January 1, 2010)

Years of Employment

Age	0 to 4 Count	0 to 4 Avg. Hours	5 to 9 Count	5 to 9 Avg. Hours	10 to 14 Count	10 to 14 Avg. Hours	15 to 19 Count	15 to 19 Avg. Hours
Under 30	6	2,125	0	0	0	0	0	0
30 to 34	9	2,116	2	2,252	0	0	0	0
35 to 39	10	1,963	2	2,184	2	2,334	0	0
40 to 44	15	2,054	4	1,999	7	1,935	2	2,135
45 to 49	15	2,003	6	2,159	10	2,201	3	2,170
50 to 54	12	2,191	10	2,136	15	2,173	9	2,072
55 to 59	5	2,152	10	2,052	13	2,079	9	2,124
60 to 64	2	2,135	3	2,029	11	2,212	4	2,038
65 & Up	0	0	1	2,076	2	2,076	3	2,055
Total	74	2,076	38	2,102	60	2,139	30	2,095

Age	20 to 24 Count	20 to 24 Avg. Hours	25 to 29 Count	25 to 29 Avg. Hours	30 & Up Count	30 & Up Avg. Hours	Total Count	Total Avg. Hours
Under 30	0	0	0	0	0	0	6	2,125
30 to 34	0	0	0	0	0	0	11	2,141
35 to 39	0	0	0	0	0	0	14	2,048
40 to 44	0	0	0	0	0	0	28	2,022
45 to 49	0	0	0	0	0	0	34	2,103
50 to 54	3	2,087	0	0	3	2,133	52	2,145
55 to 59	7	2,096	4	1,988	6	2,170	54	2,094
60 to 64	6	2,118	1	2,191	3	1,453	30	2,070
65 & Up	0	0	1	2,144	5	2,127	12	2,098
Total	16	2,102	6	2,048	17	2,025	241	2,095

LANE TRANSIT DISTRICT AND AMALGAMATED TRANSIT UNION, LOCAL NO. 757, PENSION TRUST

RETIREES, BENEFICIARIES AND DISABLED PARTICIPANTS (January 1, 2010)

Service Retirees

Age	Number	Total Monthly Benefit
Under 55	0	$ 0
55 to 59	1	1,174
60 to 64	19	14,798
65 to 69	37	34,720
70 to 74	34	26,277
75 to 79	18	10,384
80 to 84	12	5,874
85 & Up	6	1,112
Total	127	$ 94,339

Disability Retirees

Age	Number	Total Monthly Benefit
Under 55	3	$ 961
55 to 59	4	1,339
60 to 64	5	3,065
65 to 69	2	1,150
70 to 74	1	391
75 to 79	0	0
80 to 84	1	287
85 & Up	0	0
Total	16	$ 7,193

Survivors & Beneficiaries

Age	Number	Total Monthly Benefit
Under 55	1	$ 189
55 to 59	5	809
60 to 64	1	360
65 to 69	4	2,135
70 to 74	5	1,226
75 to 79	5	1,505
80 to 84	4	728
85 & Up	3	416
Total	28	$ 7,368

LANE TRANSIT DISTRICT AND AMALGAMATED TRANSIT UNION, LOCAL NO. 757, PENSION TRUST

VESTED TERMINATED EMPLOYEES
(January 1, 2010)

Age	Number	Total Accrued Monthly Benefit
Under 40	3	$ 1,073
40 to 44	2	718
45 to 49	5	2,259
50 to 54	9	4,935
55 & Up	9	4,560
Total	28	$ 13,545

In addition, there are 5 former employees who are eligible for a distribution of their Employee Participation Account.

SALARIED TRANSFERS
(January 1, 2010)

Age	Number	Total Accrued Monthly Benefit
Under 40	3	$ 896
40 to 44	2	1,056
45 to 49	5	1,552
50 to 54	8	4,496
55 to 59	7	4,656
60 to 64	3	448
65 & Up	2	288
Total	30	$ 13,392

Dear Diane:

At your request, we have provided this DRAFT analysis prior to completion of our work. Because this is a draft analysis, Milliman does not make any representation or warranty regarding the contents of the analysis. Milliman advises any reader not to take any action in reliance on anything contained in the draft analysis. All parts of this analysis are subject to revision or correction prior to the release of the final analysis, and such changes or corrections may be material. No distribution of this draft analysis may be made without our express prior written consent.

Salaried Retirement Plan

As requested we estimated the increase in the contribution rate for the Salaried plan if the rate of return assumption for the July 1, 2009 valuation was lowered from 7.5% to 6.5%. Based on the assumptions, methods, asset values and employee data detailed in the July 1, 2009 actuarial valuation, we estimate that the recommended contribution rate effective July 1, 2010 as a percentage of payroll would have increased from 18.3% to 22.0%.

ATU Retirement Plan

As requested we estimated the increase in the contribution rate for the ATU plan if the rate of return assumption for the January 1, 2010 valuation was lowered from 7.5% to 6.5%. Based on the assumptions, methods, asset values and employee data detailed in the January 1, 2010 actuarial valuation, we estimate that the January 1, 2010 contribution rate would have increase from $4.23 to $4.85 per hour. To account for delayed implementation, assuming the District contributes $4.28 from July 1, 2010 through June 30, 2011, the recommended contribution rate effective July 1, 2011 would have increased from $4.26 to $4.96 per hour.

Per your request, we have also attached a copy of the most recent valuation report for the ATU plan.

Caveats and Reliance

In preparing these estimates, we relied, without audit, on information (some oral and some in writing) supplied by the District, the plan's administrator, and legal council. This information includes, but is not limited to, Plan documents and provisions, employee data, and financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The valuation results depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different and our calculations may need to be revised.

All costs, liabilities, rates of interest, and other factors for the Plan have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the Plans and reasonable expectations); and which, in combination, offer our best estimate of anticipated experience affecting the Plans.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

Actuarial computations presented in this report are for purposes of determining the recommended funding amounts for the Plans. The calculations in the enclosed report have been made on a basis consistent with our understanding of the Plan's funding requirements and goals. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

Milliman's work is prepared solely for the internal business use of the District. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exception:

(a) The District may provide a copy of Milliman's work, in its entirety, to the District's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the District.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

If you have any questions, please let me know.

Best Regards,
Ryan

Ryan B. Lane, EA, MAAA | Consulting Actuary | **Milliman**
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FINANCE COMMITTEE AGENDA ITEM SUMMARY

DATE OF MEETING: October 12, 2010

ITEM TITLE: GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PENSION DISCLOSURE PROPOSAL

PREPARED BY: Diane Hellekson, Director of Finance and Information Technology

ACTION REQUESTED: None

BACKGROUND:

Because so many public pension plans have significant unfunded liabilities, the Governmental Accounting Standards Board (GASB) has proposed new reporting and disclosure rules. The major feature of the proposal is a requirement for public entities with underfunded pension plans to report the unfunded plan liabilities as liabilities of the employers. In other words, Lane Transit District would be required to report unfunded liabilities of the two LTD pension plans as liabilities of LTD. Essentially, LTD's assets would be used to offset the asset shortfalls of the plans.

As of July 1, 2009, the Salaried Employees' Retirement Plan had an unfunded liability of $4,503,512. As of January 1, 2010, the Lane Transit District and Amalgamated Transit Union, Local No. 757, Pension Trust had an unfunded liability of $14,017,672. Under the proposed new rules, not only would LTD have to cover the combined amount of $18,521,184; it is likely that the amount would be higher due to other requirements of the proposal such as the inclusion of cost of living adjustments if they have been granted in the past, even if the pension plans do not require them.

Governments with underfunded pension plans oppose the proposed new rules. A comment period expired September 17, 2010. Public hearings have been scheduled in October. It is not known at this time if the proposed new rules will become effective in the future. It is clear, however, that GASB considers underfunded public pension plans to be a serious problem and that governments are more likely to take corrective action if they are forced to do so. The obvious problem with the remedy proposed is that, for many government entities, the assets of the employer are not sufficient to cover the unfunded pension liabilities without severely damaging or destroying the employer.

The purpose of providing this information is to make committee members aware of the rule change proposal and to illustrate that underfunded pension plans are a concern of regulatory bodies.

ATTACHMENT: Preliminary Views of the Governmental Accounting Standards Board: Plain-Language Supplement – Pension Accounting and Financial Reporting by Employers

Q:\reference\board packet\2010\10\Finance Comm Mtg 10-12-10\GASB pension plan disclosure proposal.docx

June 16, 2010

PRELIMINARY VIEWS SUPPLEMENT

Preliminary Views of the Governmental Accounting Standards Board: Plain-Language Supplement

Pension Accounting and Financial Reporting by Employers

This plain-language supplement to a Preliminary Views is issued by the Board for public comment.

Written comments should be addressed to:

Director of Research and Technical Activities
Project No. 34

Comment Deadline: September 17, 2010

GASB

Governmental Accounting Standards Board
of the Financial Accounting Foundation

To order additional copies of this supplement (Product Code No. GV12S) or copies of the full Preliminary Views (Product Code No. GV12), contact the GASB Order Department at 1-800-748-0659, or order online at www.gasb.org.

Preliminary Views of the Governmental Accounting Standards Board:

Pension Accounting and Financial Reporting by Employers

June 16, 2010

CONTENTS

Page Number

This document is a plain-language supplement to the Preliminary Views, *Pension Accounting and Financial Reporting by Employers,* issued by the Governmental Accounting Standards Board. This supplement is prepared for citizens, taxpayers, elected representatives, municipal analysts, and other external users of governmental financial information and contains a minimum of technical terminology. The supplement references the Preliminary Views and should be read in conjunction with it. The Preliminary Views can be downloaded from the same location as this supplement: www.gasb.org. Questions for *users* of governmental financial information are posed throughout this supplement. Instructions for responding to the questions are on pages 15 and 16. *Preparers and auditors of financial statements and actuaries are requested to answer the questions posed in the Preliminary Views.*

OVERVIEW

The primary goal of the Governmental Accounting Standards Board (GASB) is to develop high-quality standards of accounting and financial reporting for state and local governments. High-quality standards lead to information in financial reports that improves transparency, assists users in assessing accountability, and is useful for making decisions. The GASB periodically reviews its existing standards to determine whether they continue to achieve these objectives effectively.

The GASB's standards for accounting for and reporting on the pension benefits that governments provide to their employees have been in effect for over a decade. In 2006, the GASB began a research project to examine whether those standards are effective in providing decision-useful information, supporting accountability and transparency, and helping people to assess interperiod equity (the degree to which a government raises sufficient resources in a given year to cover that year's costs, as opposed to, for instance, consuming resources accumulated in previous years).

In 2009, the GASB issued an Invitation to Comment that described key issues identified during the research project and explored potential approaches to addressing them. After considering responses from nearly 120 individuals and organizations, the GASB has developed a Preliminary Views containing a set of broad principles and concepts that may lead to changes to the existing standards to improve their effectiveness.

It should be noted that the Preliminary Views relates solely to accounting and financial reporting and does not apply to how governments approach the funding of their pension plans. At present, there generally is a close connection between how governments fund pensions and how they account for and report information about them in audited financial reports. The principles and concepts in the Preliminary Views would separate how the accounting and financial reporting is determined from how pension benefits are funded. Should the GASB's preliminary views become accounting and financial reporting standards in the future, governments would not be required to mirror the accounting and financial reporting changes in their funding approaches.

This supplement discusses issues in the order they are raised in the Preliminary Views. Each section of this supplement concludes by posing questions specifically written to ask users of governmental financial information how the GASB's preliminary views would affect the decision usefulness of the information they receive and their ability to assess government accountability and interperiod equity. Users also may answer the questions posed in the Preliminary Views. *Other readers of this supplement, such as actuaries or persons who prepare* *or audit government financial statements, are requested to answer the questions in the Preliminary Views rather than the questions in this supplement.*

THE NATURE OF A GOVERNMENT'S PENSION OBLIGATION

Key Issues: How does an obligation to provide pension benefits arise? Does a government's promise to provide pension benefits when its employees retire constitute a liability that should be reported in the financial statements?

Employees of state and local governments generally receive two types of compensation in return for their labor—current compensation (salaries and health insurance benefits, for the most part) and deferred compensation (primarily pensions and retiree health insurance). Both current and deferred compensation are earned by the employees as they work. But whereas salaries and other forms of current compensation generally are received by employees while they are employed by the government, deferred compensation is not received until after employees have retired or otherwise left the employment of the government. The most common form of deferred compensation is pension benefits.

In the Preliminary Views, **the GASB affirms this understanding of the nature of pension benefits—that they are a form of deferred compensation that is earned as employees work for a government**—an understanding that underlies the existing pension standards.

Responsibility for the Pension Obligation

The fact that pension benefits earned today are not received by the employees until some point in the future when they retire means that a government has an obligation *now* to provide those benefits at that future time. Most governments make payments to a pension plan to accumulate resources for the purpose of making future payments when they come due and thereby meet that obligation. The contributions to the pension plan are calculated to be what is needed to acquire investments that will have sufficient value to meet this objective.

The Preliminary Views states that for financial reporting purposes, **the employer is primarily responsible for the obligation to the extent that sufficient assets have not yet been set aside to satisfy the obligation. The pension plan is primarily responsible for the obligation to the extent that dedicated assets exist.** (This decision is discussed in Chapter 2 of the Preliminary Views.)

In other words, if on a given date the obligation for pension benefits equals $1 million, and the value of assets in the pension plan equals $800,000, then the pension plan is responsible, first and foremost, for $800,000 of the pension obligation. The government is primarily responsible for the remaining $200,000 and secondarily responsible for the $800,000 obligation, should the assets in the plan decline in value.

The Net Pension Liability

At present, neither the total obligation for pensions nor the unfunded portion is reported as a liability in a government's financial statements. Rather, a liability is reported if a government contributes less than the annual required contribution calculated by actuaries (based on the requirements of the GASB's standards). In developing the Preliminary Views, the GASB considered whether the portion of the total obligation for which the government is primarily responsible constitutes a liability that should be reported in the government's financial statements. GASB Concepts Statement No. 4, *Elements of Financial Statements* (which did not exist when the current standards were written), defines liabilities as "present obligations to sacrifice resources that the government has little or no discretion to avoid."

In the Preliminary Views, the GASB has taken the position that **the portion of the pension obligation that is not covered by assets in the pension plan—the *unfunded* obligation—is a liability of the government.** (Chapter 3 of the Preliminary Views discusses the applicability of each of the components of the definition of a liability.)

Furthermore, the GASB believes that **this liability meets the criteria for being reported in the government's accrual-based financial statements** (all statements except those for the governmental funds), as described in Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements.* That is, the liability (total pension liability minus plan net assets) is believed to be "measurable with sufficient reliability." The Preliminary Views refers to this liability as a *net pension liability.*

Summary of GASB Views

- Pension benefits are a form of compensation promised by governments to their employees in exchange for work performed.
- The pension plan is primarily responsible for the pension obligation to the extent that assets have been accumulated in the plan (by government and employee contributions and investment earnings) to finance the pension benefits; the government is secondarily responsible for this *funded* portion of the obligation.
- The government is primarily responsible for the remaining *unfunded* portion of the obligation.
- The unfunded portion of the pension would be reported as a *net pension liability* in the financial statements of the government.

Questions for Users about the Nature of the Pension Obligation

1. ***Do you agree or disagree with the GASB's views regarding the nature of the pension obligation? Why do you agree or disagree?***

2. ***How would those views affect any or all of the following:***

   a. ***The usefulness of the information to the analyses you perform, the work you do, or the decisions you make?***

   b. ***Your ability to assess a government's accountability?***

   c. ***Your ability to assess interperiod equity?***

MEASURING A GOVERNMENT'S TOTAL PENSION LIABILITY

Key Issues: How should the amount of the pension liability be measured? What methods and assumptions should be used in the calculation?

Because pension benefits are paid in future years and are based in part on events that have not occurred yet (for instance, future salary increases), governments employ actuarial methods to estimate how much the benefit payments will be in future years. An actuary's *valuation* is the product of many assumptions regarding the factors that affect the amount of benefits that will be paid to employees and their beneficiaries in the future. These assumptions are based on historical experience and expectations about the future.

The factors that are included in estimates of the amount of benefits to be paid may include, but are not limited to:

- How many employees of a government are expected to receive benefits
- How long employees are expected to work for the government
- How long employees are expected to live after retiring (and, hence, how many years they will receive benefits).

The projected future cash outflows for pension benefits are converted (discounted) to their present value—their estimated value in today's dollars. Portions of the present value generally are attributed to the past, current, and future years during which employees have worked or are expected to work in exchange for the benefits.

The portion of the present value related to services provided by employees in prior years serves as the basis for determining the total pension liability described in the previous section. As previously noted, the total liability minus the net assets in the pension plan equals the net pension liability a government would report in its financial statements.

The GASB affirms in the Preliminary Views the general current practice of incorporating expectations of future employment-related events (such as salary increases and years of continuing employment until retirement) and other assumptions into projections of pension benefit payments. (This and the following views described in this section are discussed in Chapter 4 of the Preliminary Views.)

Cost-of-Living Adjustments

Some pension plans include provisions for adjusting benefits to keep pace with rising prices—*automatic cost-of-living adjustments* (COLAs). *Ad hoc COLAs,* on the other hand, are not written into the provisions of the pension plan; they are made at the discretion of the government. Automatic COLAs are currently included in benefit projections, but ad hoc COLAs are not.

Under the Preliminary Views, **ad hoc COLAs also would be included in benefit projections if an employer's past practice of granting ad hoc COLAs indicates that the COLAs effectively have become automatic.**

The implication of this view is that, for some employers, the amount of projected future pension benefit payments would be greater than under current standards. As a result, the present value of the future benefit payments and the net pension liability to be reported by those governments also would be larger. The GASB believes that this would be a more accurate reflection of the total obligation of a government that provides ad hoc COLAs in a virtually automatic manner.

Discount Rates

If you were to try to calculate how much you would receive in the future if you invested a certain amount today, you would need to determine how much the investment would earn—the interest rate. For any given amount invested today, a higher interest rate anticipates larger future returns. Alternatively, for any given payments to be received in the future, a lower interest rate would require you to invest a larger amount today. For example, if you wanted to receive annual payments of $100 for each of the next 10 years, and the interest rate were 6 percent, then you would need to invest about $736. However, if the interest rate were 3 percent, then you would need to invest more—about $853.

The process of converting or discounting projected pension benefit payments into their present value is a similar process and requires assuming an interest or *discount rate.* At present, the accounting and financial reporting standards require governments to apply a discount rate that is based on their expected rate of return on the investments of the pension plan over the long term.

However, in some cases, the assets held by a pension plan over time, including future contributions and earnings, may not be expected to fully cover projected benefit payments. In such circumstances, the GASB does not believe that it is appropriate to use the rate of return on plan investments to calculate the present value of future benefit payments for which plan assets will not be available.

It is the GASB's view that a reasonable long-term expected rate of return on the plan's investments would continue to be the basis for discounting projected benefit payments to their present value, *but only to the extent that the current and expected future plan net assets will be sufficient to cover the future benefit payments.* This portion of the pension liability is not like traditional debt or other long-term liabilities, in that assets are set aside in an irrevocable trust and invested on a long-term basis to satisfy the pension liability.

Benefit payments that are expected to occur beyond the point at which expected plan assets are projected to be exhausted would be discounted to their present values using a high-quality municipal bond index rate. This portion of the liability is more akin to other forms of long-term debt.

The result of combining these two rates is an average rate that is weighted according to proportions of future benefit payments for which plan net assets are projected to be available or not. The impact of using a single weighted average discount rate depends on whether the high-quality municipal bond index is higher or lower than the long-term expected rate of return. For example, at the present time, most high-quality municipal bonds carry an interest rate that is lower than that of average long-term pension plan investment returns. Therefore, if a government's benefit payments are expected to exceed projected plan assets, all other things being equal, the result of using a lower discount rate would be a larger present value and therefore a larger net pension liability in the financial statements. The GASB believes that this is a more accurate depiction of the level of resources that will be consumed by the promised benefit payments.

Method of Attributing the Present Value of Benefit Payments to Specific Periods

After the projected benefit payments have been discounted to their present value, an actuary allocates that present value over a period related to the years when the employees work or are expected to work for a government and earn the benefits. At present, governments can choose among six methods for attributing the present value of benefit payments to specific years, for accounting and financial reporting purposes. The way in which the present value is divided among prior, current, and future years has an effect on the amounts of the benefits that are identified as being related to services in each period and therefore the amount reported as pension expense in the financial statements. In addition, the method of attribution affects the amount of the benefits assigned to past periods—the total pension liability.

The attribution of the present value of benefit payments is done either in *level dollar* amounts or as a *level percentage of projected payroll.* The level dollar method divides the liability into equal dollar amounts over the appropriate number of years. The level percentage method calculates payments so that they equal a constant percentage of projected payroll over time.

Some people like having multiple attribution methods to choose from because it is flexible and supports consistency between how governments make funding decisions and how they account for and report pensions in their audited financial reports. However, other people believe that allowing numerous approaches to allocation adversely affects the comparability of the resulting information, making it difficult for financial statement users to compare governments.

The Preliminary Views would require, for the purposes of accounting and financial reporting, that all governments discount projected benefits to their present value when employees first entered the government's employment (the entry age method) and attribute that value to employees' expected periods of employment as a level percentage of projected payroll. (Again, it should be noted that this requirement, as with any aspect of the GASB's pension standards, would apply only to accounting and financial reporting; governments may make other choices when deciding how they wish to fund their pension plans.)

The GASB views the attribution patterns that result from the entry age and level percentage of payroll methods as more representative of how pension benefits are earned. In other words, the entry age and level percentage of payroll methods reflect the ongoing annual exchange of service for benefits over the course of an employee's period of employment in amounts that keep pace with the employee's projected salary over that period.

Although moving from a choice among six attribution methods to a single required method would be a significant change, the GASB believes that potential disruption would be minimized for two reasons. First, the entry age method is the most commonly used of the six options at present. Second, most governments currently choose a level percentage of payroll approach over level dollar.

Summary of GASB Views

- Future salary increases and future periods of employment with the government would continue to be incorporated into projections of pension benefit payments.

- Automatic COLAs would continue to be incorporated into projections of pension benefit payments, and ad hoc COLAs would be included as well if an employer's practice indicates that the COLAs are essentially automatic.
- A single weighted-average discount rate would be used, based on the long-term expected rate of return on the assets of the plan to the extent that projected benefit payments will be covered by current and expected plan assets, and a high-quality municipal bond index beyond the point at which assets are not available.
- Projected pension benefits would be discounted to each employee's entry age and attributed to the employee's expected term of service as a level percentage of payroll.

Questions for Users about Measuring the Total Pension Liability

3. ***Do you agree or disagree with the GASB's views regarding how the total pension liability should be measured? Why do you agree or disagree?***

4. ***How would those views affect any or all of the following:***

    a. ***The usefulness of the information to the analyses you perform, the work you do, or the decisions you make?***

    b. ***Your ability to assess a government's accountability?***

    c. ***Your ability to assess interperiod equity?***

REPORTING CHANGES IN A GOVERNMENT'S NET PENSION LIABILITY

Key Issues: When should year-to-year changes in the net pension liability be reported as expenses? Should there be different timing of expenses depending on the type of change in the net pension liability?

The size of a government's net pension liability changes from year to year for a variety of reasons:

1. Employees work and earn more benefits
2. The outstanding liability accrues interest
3. Actual economic and demographic factors differ from what was assumed in the calculation of the pension liability
4. Changes are made in assumptions about economic and demographic factors
5. Changes in the terms of the pension plan affect benefits associated with employee services in past years
6. The value of plan net assets changes.

The amount of the net pension liability, as discussed so far, equals (a) the portion of the present value of the future pension benefit payments a government will make to its current and former employees that is attributed to past periods *minus* (b) the net assets set aside in the plan that are available to pay benefits. A key accounting and financial reporting issue is when to recognize period-to-period changes in the net pension liability as a cost of a government's operations—as expenses in the accrual-based financial statements.

Changes to Be Reported as Expenses Each Year

The Preliminary Views discusses how changes in the net pension liability would be reflected in the financial statements. (The tentative decisions described in this section are discussed in Chapter 5.) **Each year, benefits earned by employees in exchange for their services and the interest on the beginning balance of the total liability would be reported as expenses.** (Refer to Items 1 and 2 above.) Pension benefits and interest costs are reported as expenses annually as they are earned or accrue, respectively. Likewise, the effects of changes in plan net assets other than investment earnings (for instance, contributions) would be incorporated into expenses when the changes occur.

In contrast, the effects of other changes in the net pension liability would be accumulated and systematically reported as expense each year until an employee retires.

Changes to Be Reported as Expenses over the Remaining Period of Employment

Predictions of economic and demographic factors are not precise, and in general, the actual experience turns out to be different from what was assumed. Furthermore, governments may change their assumptions periodically to acknowledge a persistent difference between assumed and actual experience, or because some other event (such as a long-term economic downturn) suggests that future experience will be different. **Changes in the liability related to (1) the difference between assumed and actual economic and demographic factors and (2) changes in the assumptions would be systematically spread over the employees' remaining service periods—the time from now until the employees retire—and each year's portion would be reported as expenses,** based on the Preliminary Views. (Refer to Items 3 and 4 above.) If a key goal of financial reporting is to aid in the assessment of interperiod equity, then it is rational to recognize expenses while the benefits are being earned—that is, over an employee's term of employment.

Occasionally, the terms of a pension plan may be changed in a way that retroactively changes the amount of benefits that were considered earned by employees for service in past years. Because most states, through constitutions or statutes, prohibit a reduction in the pension benefits of current and former public employees (as opposed to prospective reductions in the benefits of employees hired in the future), virtually all of these retroactive benefit changes are improvements in benefits that increase the size of the net pension liability and the annual costs. (Refer to Item 5 above.)

An increase in the net pension liability due to retroactive benefit improvements would be recognized as expense over periods representative of the employees' remaining service. In concept, the GASB believes that it is appropriate that the cost of benefit improvements be expensed while the employees are still working for the government and not assigned to periods after they retire when the government is no longer receiving service from them.

At present, governments may recognize the changes resulting from Items 3–5 over a period of up to 30 years. The implications of the GASB's views in this area would be that most governments would recognize these costs as pension expenses sooner than they do at present. For instance, benefit changes affecting retirees and other persons no longer working for a government (and thus with no remaining service period) would be recognized as expense immediately.

Again, it should be noted that these proposals would be required only for accounting and financial reporting purposes. Governments would not have to change their annual pension contributions to match the change in expense reporting.

Investment Earnings

Broadly, a pension plan's assets that can be used for providing benefits derive from three sources—employer contributions, employee contributions, and earnings on the investment of those contributions. As noted previously, all other things being equal, a relatively greater return on investments would lower the amount a government would need to contribute to ensure that sufficient assets are available in the plan to pay benefits when due. Alternatively, a relatively lesser return would require a government to contribute more.

The long-term expected rate of return on plan investments, therefore, is a key factor in determining what it costs a government (reported as expenses) to provide a given level of pension benefits. To the extent that investments earn less than expected, a government's pension expenses will be greater. To the extent that investments earn more than expected, it serves to net against and lower a government's pension expense.

Under the existing accounting and financial reporting standards, annual changes in the value of pension plan investments may not immediately impact the unfunded pension obligation or pension expense. Rather, the increases or decreases in value are permitted to be recognized over several years (most often three to five); this is often called asset smoothing. This is done as part of planning how a government will fund its pensions. The objective is to minimize the impact of normal year-to-year volatility of investment values on the size of the obligation, so that annual contributions to the pension plans follow a reasonably predictable trend over time.

The incorporation of asset smoothing into the present accounting and financial reporting standards has been criticized by some because, in their view, it may delay a government's reaction to significant changes in the value of plan assets, and it diminishes the comparability of the unfunded obligation measure from government to government.

The Preliminary Views describes a different approach that bridges these concerns about current practice. The net pension liability would be calculated by subtracting pension plan net assets available for benefits, including the fair value of investments (not a value based on smoothing annual changes in fair value), from the total pension obligation.

As with assumed economic and demographic factors, assumed returns on plan investments would be incorporated into the pension expense each year. But should actual returns above or below the assumed rate be part of the expense calculation as well? The Preliminary Views would not include differences between the assumed and actual returns in the expense calculation immediately. (Refer to Item 6 above.) Rather, **the annual difference between the assumed and actual investment return would accumulate in the financial statements as deferred inflows**

(returns above the assumed rate) or deferred outflows (returns below the assumed rate), but only to a certain extent.

What does that mean? Generally, actual returns are greater than assumed in some years and lower than assumed in other years. Over time, these differences would be expected to approximately offset each other. The GASB believes that it generally is not appropriate to include in the calculation of annual pension expense these differences in returns that are expected to offset one another.

However, there is a limit to how much would be deferred and not included in the pension expense. **If the deferred outflows (or inflows) accumulate to an amount that exceeds 15 percent of the plan's investments, then the excess amount would be reported as expense (or a reduction of expense) immediately.**

This proposal would serve to remove normal fluctuations in investment values that, over time, are expected to have no net impact on expenses. However, events that have a cumulative impact on asset values that is expected to take a relatively long period to offset (an impact that exceeds the 15 percent limit), such as a large increase or decline in the stock market, *would* be incorporated in the expense calculation immediately.

Summary of GASB Views

Changes in the amount of the net pension liability would be incorporated into the calculation of annual pension expense in the following ways:

- (1) Pension benefits earned, (2) interest cost on the beginning balance of the total pension liability, and (3) changes in plan net assets not related to investments would be reported as expenses each year as they occur.
- (a) Differences between expected and actual economic and demographic factors relevant to the calculation of the total pension liability, (b) changes in assumptions about those factors, and (c) changes in pension plan terms that affect the amount of benefits attributed to past years, would be systematically reported as expenses over a period representative of the remaining service periods of employees.
- Differences between assumed returns on pension plan investments and actual returns would be deferred as long as the accumulated deferred inflows or deferred outflows do not exceed the equivalent of 15 percent of the fair value of pension plan investments. Any amount beyond 15 percent would be incorporated into the expense calculation immediately.

Questions for Users about Reporting Changes in the Net Pension Liability

5. ***Do you agree or disagree with the GASB's views regarding when changes in the components of the net pension liability should be reported? Why do you agree or disagree?***

6. ***How would those views affect any or all of the following:***

   a. ***The usefulness of the information to the analyses you perform, the work you do, or the decisions you make?***

   b. ***Your ability to assess a government's accountability?***

   c. ***Your ability to assess interperiod equity?***

GOVERNMENTS IN COST-SHARING MULTIPLE-EMPLOYER PENSION PLANS

Key Issue: Should governments that participate in a cost-sharing multiple-employer pension plan report a net pension liability, as would governments in sole and agent multiple-employer plans?

The issues discussed to this point have related almost entirely to governments participating in single-employer and agent multiple-employer pension plans. As their name indicates, single-employer plans involve only one government, whereas multiple-employer plans include more than one government.

In *agent* multiple-employer plans, separate accounts are maintained to ensure that each employer's contributions are used to provide benefits only for the employees of that government. Individual employers are responsible for benefits associated with their own employees only, and separate actuarial calculations are made for each participating government in the plan. It is like a collection of single-employer plans. However, to take advantage of economies of scale, the cost of administering the plan is shared by the participating governments, and the plan assets generally are pooled for investment purposes.

In a *cost-sharing* multiple-employer plan, on the other hand, governments pool (share) the costs of providing benefits and administering the plan and the assets accumulated to pay benefits. A single actuarial valuation is conducted for all of the employees of the participating governments *combined.*

The present accounting and financial reporting requirements for governments participating in cost-sharing plans reflect the pooling of risks and assets by not requiring actuarial information to be presented for individual employers. Instead, this information is required to be presented in the cost-sharing pension plan's own financial statements. For instance, the disclosures and supplementary schedules that track the level of plan funding over time and compare actual contributions with the amount the actuarial calculations say should be contributed are not presented by the individual governments, only by the plan.

However, it does not appear that the needs of the users of information about cost-sharing plans and their participating governments are substantially different from the needs of users of sole and agent pension plan financial reports. For instance, users want to know if a government in a cost-sharing plan, like other government employers, incurred an obligation to provide pension benefits to employees as they have worked.

Net Pension Liability

Similar to the tentative conclusion that the unfunded portion of the pension obligation of a single or agent employer is a liability of the government that should be reported in the financial statements—a net pension liability—the GASB believes that the unfunded portion of a cost-sharing pension plan's obligation is the primary responsibility of the participating governments as a group. **Each participating government, therefore, would report a net pension liability based on its proportion of the unfunded obligation of all of the participating governments.**

Changes in the Net Pension Liability

Broadly, there are two sources of changes in the net pension liability that would affect each individual participating government. First, the collective employers' pension obligation changes due to the factors described in the preceding section (Items 1–6). The collective effect of those changes on expense and deferred outflows (inflows) would be determined using the same methods proposed for governments in single-employer or agent multiple-employer plans. (Refer to the Summary of GASB Views in the preceding section.) **A participating government would report its proportionate share of those collective changes.**

Second, a change in a government's proportionate share of the collective employers' pension obligation would change the liability it reports.

Summary of GASB Views

- The portion of a cost-sharing multiple-employer pension plan's pension obligation for which assets are not available—the unfunded pension obligation—is a liability of the participating governments, not the plan itself.
- A government participating in a cost-sharing plan would report a liability in its own financial statements that is equivalent to its proportionate share of the collective unfunded obligation.
- A government participating in a cost-sharing plan would report its proportionate share of changes in the employers' collective pension obligation using the same methods (expense or deferred outflows/inflows) proposed for governments in single-employer and agent multiple-employer pension plans.

Questions for Users about Governments in Cost-Sharing Plans

7. ***Do you agree or disagree with the GASB's views regarding governments in cost-sharing multiple-employer plans? Why do you agree or disagree?***

8. ***How would those views affect any or all of the following:***

   a. ***The usefulness of the information to the analyses you perform, the work you do, or the decisions you make?***

   b. ***Your ability to assess a government's accountability?***

   c. ***Your ability to assess interperiod equity?***

THE TIMING AND FREQUENCY OF PENSION MEASUREMENTS

Key Issues: How often should actuarial measurements take place for the purposes of accounting and financial reporting? When should actuarial measurements take place in relation to a government's fiscal year-end?

The Preliminary Views states that the net pension liability would be measured as of the end of a government's fiscal year. Doing so would require determination of two key pieces of underlying information—the total pension liability and the value of plan assets.

An actuarial valuation of the pension obligation would need to be performed at least once every two years, according to the Preliminary Views. The valuation date would not need to be the employer's fiscal year-end; however, it would need to be a date no more than 24 months prior to the fiscal year-end on which the net pension liability is being reported.

Measurements made earlier than the fiscal year-end would have to be updated to incorporate changes that took place in the interim that have an effect on the net pension liability. How would an update compare with a new actuarial valuation? The procedures needed to update an actuarial valuation to the employer's fiscal year-end would depend on the extent of the impact of events and transactions since the last actuarial valuation. An update might adjust the net pension liability for benefits earned, interest on the total liability, and benefit payments since the last actuarial measurement. However, if there have been significant changes since the last actuarial measurement, a new actuarial valuation might be needed.

The actuarial valuation that produces the measure of the unfunded pension obligation under current standards also is required to be conducted at least every other year. In practice, many governments have annual valuations. At present, it is possible that the underlying actuarial valuation on which a government's pension expense is based could be more than two years old by the end of the fiscal year for which the government is reporting, or more than three years old if a government has valuations done every other year.

The result of pursuing this view would be more up-to-date information about the size of a government's unfunded pension obligation. Comparability across governments would be improved as well, because each government's net pension liability would be based on information as of the end of its fiscal year. That would alleviate concerns about outdated information.

Summary of GASB Views

- The net pension liability (total liability minus the value of plan net assets) would be measured as of the end of a government's fiscal year.
- Actuarial valuations to measure the total liability would take place at least every other year.
- The date of the actuarial valuation used to report an employer's net pension liability would not have to be the employer's fiscal year-end; however, it would have to be no more than 24 months prior to the end of a government's fiscal year.
- Measurements of the net pension liability that take place earlier than the end of a government's fiscal year would be updated to reflect all significant changes between the actuarial valuation date and the fiscal year-end.

Questions for Users about the Timing and Frequency of Measurements

9. ***Do you agree or disagree with the GASB's views regarding the timing and frequency of the measurement of the net pension liability and its components? Why do you agree or disagree?***

10. ***How would those views affect any or all of the following:***

    a. ***The usefulness of the information to the analyses you perform, the work you do, or the decisions you make?***

    b. ***Your ability to assess a government's accountability?***

    c. ***Your ability to assess interperiod equity?***

WHAT INFORMATION DOES THE GASB NEED TO PROCEED WITH THIS PROJECT?

When the GASB sets standards, a crucial part of its "due process" activities is the publication of documents for public discussion and comment. The GASB relies on the comments of the people who prepare and audit financial statements to assess the technical accuracy and appropriateness of potential approaches to addressing accounting and financial reporting issues. The GASB often poses questions regarding critical issues in its due process documents.

The users of financial statements, on the other hand, are in the best position to help the GASB understand whether or not the information that would result from the potential approaches would be useful for fulfilling their need for governmental financial information. The substance of the comments from each of the GASB's constituents is more important to the GASB's deliberations than the total number of people for or against a certain approach. A Preliminary

Views is not an opinion poll, and the GASB's ultimate decisions are not necessarily those with the most popular support.

You can help the GASB to complete this project by reviewing the issues raised in the Preliminary Views and answering the questions posed throughout this supplement.

WHAT IS THE PURPOSE OF THIS SUPPLEMENT?

To help achieve its mission of setting accounting standards that result in information that is useful for making decisions, the GASB makes a concerted effort to communicate with the public in a more understandable and broadly accessible manner. In particular, the GASB occasionally uses "plain-language" supplements in conjunction with its due process documents.

This document is a plain-language supplement that accompanies a Preliminary Views discussing potential changes to the GASB's existing standards for pensions—*Pension Accounting and Financial Reporting by Employers*. The intention of this plain-language supplement is to make it easier for you to participate knowledgeably in the GASB's standards-setting activities. This supplement attempts to achieve this goal by (1) presenting the issues with as little of the Preliminary View's technical and implementation-oriented vocabulary as possible and (2) focusing on the impact the issues may have on the information you find in government financial statements. This supplement focuses on situations that most typically occur and does not address certain circumstances that are less common. The complete discussion of the issues can be found in the Preliminary Views, which should be read in conjunction with this supplement.

The GASB hopes that, as a result of its efforts to present these issues in less technical language, more users of governmental financial information will respond. The GASB will consider this feedback, and that expressed in three public hearings, during its future deliberations on the pension standards.

HOW CAN YOU SHARE YOUR OPINIONS WITH THE GASB?

It is essential to the Board to receive feedback from users like you, in response to the questions presented above. You may also wish to address other issues raised in the Preliminary Views. *(Preparers and auditors of financial statements and actuaries are requested to answer the questions posed in the Preliminary Views rather than the questions in this supplement.)*

If you would like to submit written comments to the GASB about the views expressed in this document, there are two ways you may do so:

- By email—send your comments to director@gasb.org
- By traditional mail—include your comments in a letter and mail to:

Director of Research and Technical Activities
Project No. 34
Governmental Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Submissions are requested by September 17, 2010.

The GASB has scheduled three public hearings at locations around the country:

- October 13, 2010 in Dallas, Texas
- October 14, 2010 in San Francisco, California
- October 27, 2010 in New York City.

If you wish to speak at a hearing, you should notify the GASB of your intent in writing and submit a copy of your comments, using the address above, no later than September 17, 2010. You can testify in person or via telephone. Please read the participation requirements in the notice of public hearing in the Preliminary Views.