

ACTUARIAL REPORT
**CITY OF BRENTWOOD
POLICE AND FIREMEN'S PENSION PLAN**

January 1, 2015

Prepared
March 23, 2015





CITY OF BRENTWOOD POLICE AND FIREMEN'S PENSION PLAN

Table of Contents

Introduction and Actuarial Certification	1
Comments on Valuation Results	2
Summary of Valuation Results	
Change in Net Assets (GASB 67/68 Change in Fiduciary Net Position)	3
Analysis of Contribution Input	4
Display of Security of Vested and Accrued Benefits	5
Supporting Actuarial Exhibits	
Participant Summary as of January 1, 2015	6
Development of Unfunded Accrued Liability	7
Determination of Recommended Contribution	8
GASB No. 67 and No. 68 Disclosures	
GASB 67/68 Net Pension Liability	9
Schedule of Employer Paid Contributions and Investment Returns	10
GASB 68 2015 Pension Expense	11
Annual Reporting Under GASB Nos. 25 and 27	12
Basis of Actuarial Valuation	
Statement of Actuarial Methods and Assumptions	13
Summary of Plan Provisions.	15



CITY OF BRENTWOOD POLICE AND FIREMEN'S PENSION PLAN

Introduction and Actuarial Certification

Introduction

We are pleased to present the Actuarial Valuation report of the City of Brentwood Police and Firemen's Pension Plan (the Plan) as of 1/1/2015. At the request of the Plan Trustees we have completed this Actuarial Valuation as required by federal law. This report is intended solely for the Trustees, Plan Administrator and the Independent Accountant. It may only be provided to other parties in its entirety and with our prior approval, and we are not responsible for any unauthorized use. We do not maintain any relationship or have any conflict of interest that would impact the results presented in this report.

We have relied on employee and financial data supplied by the Trustees or their representatives to calculate the values of the retirement benefits for all participants. While we have reviewed the data for reasonableness and general consistency, we have not performed the extensive analysis or examination necessary to verify any of the information provided. To determine the value of Plan benefits, in conjunction with the Trustees, we have made certain assumptions as to rates of death, termination, and investment return. Each significant non-prescribed assumption reflects market data and an estimate of future experience. No provision has been made for possible future mortality improvement. Although the non-prescribed assumptions represent our best estimate of anticipated Plan experience, it is important to consider that Plan costs include a certain level of inherent risk and uncertainty. Actual Plan experience, in particular investment return experience, may result in material changes in the Plan's valuation. The funding method used determines how much of the value of these benefits which is not yet funded, is allocated to the current year

The purpose of this Actuarial Valuation is to measure the funding status of the Plan, analyze the preceding year's experience, determine the range of contributions for the Plan Year beginning 1/1/2015, and provide GASB 67 and 68 reporting requirements. No adjustments have been made for any events after the measurement date. This report and its results cannot be relied upon for other than its intended purpose. Any attempt to use this report, either in whole or in part, for reasons other than those stated above can result in improper or misleading conclusions.

The funding policy of the Plan Sponsor is to contribute the Recommended Contribution provided by the Actuary as shown in this report. The funding source for this plan is general tax revenue, employee contributions, and additional discretionary amounts from time to time. The funding policy is expected to increase future expected contributions in proportion to payroll growth.

Actuarial Certification

This Actuarial Valuation has been completed in accordance with generally accepted actuarial principles and practices. To the best of our knowledge and belief, this valuation is complete and accurate based on our understanding of the provisions of the Plan as summarized within the report. In our opinion, the actuarial assumptions and methods used are individually reasonable and in combination represent our best estimate of anticipated experience under the Plan.

This valuation was prepared by the undersigned actuaries, each of whom meets the Qualification Standards of the American Academy of Actuaries required to render the actuarial results and opinions presented within this report. We are available at any time to provide additional or supplementary information to explain the results of this report.

Ekon Benefits

Keith Kowalczyk
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Member of the American Academy of Actuaries
Enrolled Actuary No. 14-2812

Zhimin Wang
Actuarial Analyst



CITY OF BRENTWOOD POLICE AND FIREMEN'S PENSION PLAN

This valuation is based on employee data and financial data as of January 1, 2015.

Recommended Contribution

The recommended contribution increased slightly by \$56,865 from \$1,321,285 last year to **\$1,378,150** this year.

The recommended contribution is based on the Aggregate Funding Method which spreads the remaining cost over the future working salaries of the current participants and is developed on Page 8. The recommended contribution increased mainly due to the actuarial loss from a 5.49% return on Plan assets which is lower than our assumed rate of 7.0%. This increase was mostly offset by an actuarial gain arising from an average 1.87% salary appreciation which is lower than our assumed rate of 5.0%.

Contribution Analysis

An analysis of the contributions shows that the funds anticipated to be received for 2015 are \$66,258 less than needed to cover the recommended contribution. The current Pension Fund Tax Rates are as follows:

Residential	\$0.388/\$100 of assessed valuation
Commercial	\$0.411/\$100 of assessed valuation
Personal Property	\$0.385/\$100 of assessed valuation

Funding levels are determined as of the last day of the Plan Year.

	<u>2015</u>	<u>2014</u>
1. Expected Taxes	\$ 1,063,302	\$ 1,033,187
2. Expected Employee Contributions	<u>248,590</u>	<u>250,924</u>
3. Total Expected Contributions	1,311,892	1,284,111
4. 10-Year Contribution	1,510,116	1,486,442
5. Recommended Contribution (Aggregate Cost Method)	1,378,150	1,321,285
6. 30-Year Contribution	1,250,270	1,220,100

Current Liability Analysis

Due to the above mentioned reasons, the Accrued Benefits Security Ratio remained the same compared with last year's Ratio of 106%. This calculation is presented on page 5.

Actuarial Procedures

This valuation reflects the implementation of the new GASB reporting requirements under Statements No. 67 and No. 68. The new reporting requirements fundamentally change the required disclosures, including balance sheet liabilities and annual expense. As of 12/31/2014, the GASB 67 balance sheet liability is \$4,205,235 and 2015 pension expense is \$986,490.

There have been no other changes in plan provisions, assumptions, or funding method since the prior valuation.



**CITY OF BRENTWOOD
POLICE AND FIREMEN'S PENSION PLAN**

Change in Net Assets (GASB 67/68 Change in Fiduciary Net Position)

	<u>Cash</u>	<u>Accruals</u>	<u>Total</u>
Beginning Balance January 1, 2014	\$ 31,199,919	\$ 22,859	\$ 31,222,778
Accrued Employer Contributions	0	763,374	763,374
Accrued Employee Contributions	0	18,166	18,166
Accrued Assets January 1, 2014	31,199,919	804,399	32,004,318
<u>Additions</u>			
Contributions			
Employer	1,062,674	-763,374	299,300
Employee	236,372	-18,166	218,206
Total	<u>1,299,046</u>	<u>-781,540</u>	<u>517,506</u>
Earnings	1,725,315	-22,859	1,702,456
Total Additions	3,024,361	-804,399	2,219,962
<u>Deductions</u>			
Administrative Expenses	-143,392	0	-143,392
Benefit Payments	-1,530,080	0	-1,530,080
Total Deductions	<u>-1,673,472</u>	<u>0</u>	<u>-1,673,472</u>
<u>Accrued Amounts</u>			
Accrued Employer Contributions	0	764,002	764,002
Accrued Employee Contributions	0	17,733	17,733
Accrued Earnings	0	13,547	13,547
Net Increase/Decrease in Net Position	1,350,889	-9,117	1,341,771
Ending Balance December 31, 2014	\$ 32,550,807	\$ 795,282	\$ 33,346,089



**CITY OF BRENTWOOD
POLICE AND FIREMEN'S PENSION PLAN
Analysis of Contribution Input**

	<u>1/1/2015</u>	<u>1/1/2014</u>
<u>Determination of Expected Contributions</u>		
1. Budgeted Tax Revenue	\$1,085,002	\$1,054,273
2. Expected Tax Revenue (1) x 98%	\$1,063,302	\$1,033,187
3. General Revenue Contribution	\$0	\$0
4. Required Employee Contribution	\$248,590	\$250,924
5. Total Expected Contribution	<u>\$1,311,892</u>	<u>\$1,284,111</u>
 <u>30 Year Payment of Unfunded Actuarial Accrued Liability</u>		
Normal Cost	\$851,762	\$815,646
Amortization Payment	316,715	324,634
TOTAL (Beg. of Year)	<u>\$1,168,477</u>	<u>\$1,140,280</u>
 TOTAL (End of Year)	 \$1,250,270	 \$1,220,100
 <u>20 Year Payment of Unfunded Actuarial Accrued Liability</u>		
Normal Cost	\$851,762	\$815,646
Amortization Payment	370,976	380,252
TOTAL (Beg. of Year)	<u>\$1,222,738</u>	<u>\$1,195,898</u>
 TOTAL (End of Year)	 \$1,308,330	 \$1,279,611
 <u>10 Year Payment of Unfunded Actuarial Accrued Liability</u>		
Normal Cost	\$851,762	\$815,646
Amortization Payment	559,562	573,552
TOTAL (Beg. of Year)	<u>\$1,411,324</u>	<u>\$1,389,198</u>
 TOTAL (End of Year)	 \$1,510,116	 \$1,486,442
 <u>Aggregate Cost</u>		
 TOTAL (Beg. of Year)	 \$1,287,991	 \$1,234,846
 TOTAL (End of Year)	 \$1,378,150	 \$1,321,285



**CITY OF BRENTWOOD
POLICE AND FIREMEN'S PENSION PLAN
Display of Security of Vested and Accrued Benefits**

	1/1/2015	1/1/2014
<u>Security of Vested Accrued Benefits</u>		
Present Value of Vested Accrued Benefits		
Retired Participants	\$ 15,436,577	\$ 13,730,784
Terminated Vested Participants	43,053	41,198
Active Participants	15,032,933	15,609,699
TOTAL	\$ 30,512,563	\$ 29,381,681
Assets	\$ 33,346,089	\$ 32,004,318
Vested Accrued Benefit Funded Status (The excess of assets over liabilities)	\$ 2,833,526	\$ 2,622,637
Vested Accrued Benefit Security Ratio (The ratio of assets to liabilities)	109%	109%
<u>Security of Accrued Benefits</u>		
Present Value of Accrued Benefits		
Retired Participants	15,436,577	13,730,784
Terminated Vested Participants	43,053	41,198
Active Participants	15,871,161	16,319,637
TOTAL	\$ 31,350,791	\$ 30,091,619
Assets	\$ 33,346,089	\$ 32,004,318
Accrued Benefit Funded Status (The excess of assets over liabilities)	\$ 1,995,298	\$ 1,912,699
Accrued Benefit Security Ratio (The ratio of assets to liabilities)	106%	106%



**CITY OF BRENTWOOD
POLICE AND FIREMEN'S PENSION PLAN
Participant Summary as of January 1, 2015**

Active Participants

Active participants at beginning of past plan year	50
Active Participants who during the past year	
Retired	2
Died	0
Terminated	0
Active participants at end of past plan year	48
New entrants during the past year	2
Active participants at the beginning of current plan year	50
Active participants who are fully vested	33
Active participants who are partially vested	0
Active participants who are not vested	17

Retired Participants and Beneficiaries

Retired participants and beneficiaries at beginning of past plan year	25
Active participants who retired during the past plan year	2
Terminated Vesteds who retired during the past plan year	0
Retired participants and beneficiaries who during the past plan year	
Died without a beneficiary	1
Payments completed	0
Retired participants at the beginning of current plan year	26

Beneficiaries of Deceased Participants

Beneficiaries as of beginning of past plan year	8
Beneficiaries who during the past plan year	
Died	0
Payments completed	0
Active participants who died with beneficiaries	0
Retired participants who died with beneficiaries	0
Beneficiaries as of beginning of current plan year	8

Terminated-Vested Participants

Terminated-vested participants as of beginning of past plan year	1
Active participants who terminated with vested benefits	0
Terminated-vested participants who during the past plan year	
Died	0
Retired	0
Terminated-vested participants as of beginning of current plan year	1



**CITY OF BRENTWOOD
POLICE AND FIREMEN'S PENSION PLAN
Development of Unfunded Accrued Liability**

1.	a) Unfunded Accrued Liability as of January 01, 2014	\$ 4,310,378
	b) Interest on 1(a) for one year	<u>301,726</u>
	c) Total	\$ 4,612,104
2.	a) Normal Cost as of January 01, 2014	815,646
	b) Interest on 2(a) for one year	<u>57,095</u>
	c) Total	\$ 872,741
3.	a) Contributions during the year	\$ 1,299,241
	b) Interest on 3(a) to the end of the Plan Year	<u>12,296</u>
	c) Total	\$ 1,311,537
4.	Expected Unfunded Accrued Liability as of December 31, 2014 (1) + (2) - (3)	4,173,309
5.	Adjust Unfunded Accrued Liability	
	- Plan Amendment	0
	- Change in Actuarial Assumptions	0
	- Actuarial Loss/(Gain)	31,926
6.	Adjusted Unfunded Accrued Liability as of December 31, 2014 (4) + (5)	\$ 4,205,235



**CITY OF BRENTWOOD
POLICE AND FIREMEN'S PENSION PLAN
Determination of Recommended Contribution**

	<u>1/1/2015</u>	<u>1/1/2014</u>
1. Present Value of Projected Benefits		
Actives - Future Retirement	\$ 28,169,979	\$ 28,912,181
- Future Withdrawals	1,034,655	1,048,413
- Future Death	327,415	400,069
Retirees	15,436,577	13,730,784
Disabled	0	0
Beneficiaries of Deceased Participants	0	0
Terminated Vested	43,053	41,198
TOTAL	\$ 45,011,679	\$ 44,132,645
2. Assets	33,346,089	32,004,318
3. Present Value Future Normal Costs (1) - (2)	11,665,590	12,128,327
4. Present Value Future Salaries	32,331,490	34,185,354
5. Accrual Rate: (3) divided by (4)	0.360812	0.354781
6. Annual Salaries	3,569,700	3,480,582
7. Normal Cost for Recommended Contribution (5) x (6)	\$ 1,287,991	\$ 1,234,846
8. Recommended Contribution (7) + (interest to year end)	\$ 1,378,150	\$ 1,321,285



**CITY OF BRENTWOOD
POLICE AND FIREMEN'S PENSION PLAN
GASB 67/68 Net Pension Liability**

	<u>12/31/2014</u>	<u>12/31/2013</u>
Total Pension Liability		
Retired Participants	\$ 15,436,577	\$ N/A
Terminated Vested Participants	43,053	N/A
Active Participants	<u>22,071,694</u>	N/A
TOTAL	\$ 37,551,324	\$ N/A
Plan Fiduciary Net Position	\$ 33,346,089	\$ N/A
Net Pension Liability	\$ 4,205,235	\$ N/A
Plan Fiduciary Net Position as % of Total Pension Liability	88.80%	N/A
Covered Payroll	\$ 3,945,875	\$ N/A
Net Pension Liability as % of Covered Payroll	106.57%	N/A
Sensitivity of Net Pension Liability to <u>Changes in Discount Rate</u>		
1% Decrease	\$ 9,148,365	\$ N/A
1% Increase	\$ 85,895	\$ N/A



**CITY OF BRENTWOOD
POLICE AND FIREMEN'S PENSION PLAN**

Schedule of Employer Paid Contributions and Investment Returns

GASB 67 and 68 Schedule of Contributions

Year	Actuarially Determined Employer Contributions	Actual Employer Contributions	Contribution Deficiency/(Excess)	Covered Payroll	Contributions as percentage of Covered Payroll
2005	758,043	746,265	11,778	2,901,056	25.72%
2006	747,443	920,076	(172,633)	2,866,503	32.10%
2007	691,831	1,095,966	(404,135)	2,998,287	36.55%
2008	793,276	949,751	(156,475)	3,143,182	30.22%
2009	1,317,216	1,082,631	234,585	3,341,564	32.40%
2010	1,206,469	961,862	244,607	3,274,620	29.37%
2011	1,135,968	917,829	218,139	3,423,041	26.81%
2012	1,391,849	1,008,122	383,727	3,604,276	27.97%
2013	1,751,034	1,033,187	717,847	3,982,928	25.94%
2014	1,321,285	1,063,302	257,983	3,945,875	26.95%

GASB 67 and 68 Schedule of Investment Returns

Year	Annual Dollar-Weighted Rate of Return Net Expenses
2005	5.42%
2006	7.25%
2007	8.31%
2008	-14.03%
2009	14.81%
2010	7.08%
2011	-1.13%
2012	9.72%
2013	17.34%
2014	5.49%



**CITY OF BRENTWOOD
POLICE AND FIREMEN'S PENSION PLAN
GASB 68 2015 Pension Expense**

	12/31/2015	12/31/2014
1. Service Cost	\$ 911,385	\$ N/A
2. Interest Cost		
Total Pension Liability	37,551,324	N/A
Expected Benefit Payments	1,702,679	N/A
Discount Rate	7.00%	N/A
Total Interest Cost	\$ 2,568,999	\$ N/A
3. Expected Administrative Expenses	\$ 0	\$ N/A
4. Expected Employee Contributions	\$ 219,262	\$ N/A
5. Expected Rate of Return		
Plan Fiduciary Net Position	33,346,089	N/A
Expected Benefit Payments	1,702,679	N/A
Long-term Rate of Return	7.00%	N/A
Expected Return on Assets	\$ 2,274,632	\$ N/A
6. Increase/(Decrease) in Total Pension Liability due to Plan Amendments	\$ 0	\$ N/A
7. Amortizations		
Liability (Gain)/Loss	0	N/A
Assumption Changes	0	N/A
Investment Return (Gain)/Loss	0	N/A
Total Amortizations	\$ 0	\$ N/A
8. Pension Expense	\$ 986,490	N/A
(1)+(2)+(3)-(4)-(5)+(6)+(7)		



**CITY OF BRENTWOOD
POLICE AND FIREMEN'S PENSION PLAN
Annual Reporting Under GASB Nos. 25 and 27**

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2010	22,890,944	27,007,531	4,116,587	84.8%	3,341,564	123.2%
1/1/2011	25,082,907	28,760,833	3,677,926	87.2%	3,274,620	112.3%
1/1/2012	24,870,721	30,319,859	5,449,138	82.0%	3,423,041	159.2%
1/1/2013	27,206,099	34,641,073	7,434,974	78.5%	3,604,276	206.3%
1/1/2014	32,004,318	36,314,696	4,310,378	88.1%	3,982,928	108.2%
1/1/2015	33,346,089	37,551,324	4,205,235	88.8%	3,945,875	106.6%

SCHEDULE OF EMPLOYER CONTRIBUTION AND PENSION COST

Year Ending	Contributions		Pension Expense		
	Annual Required Contribution	Percentage Contributed	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
12/31/2010	803,959	119.6% *	900,525	106.8%	(2,772,386)
12/31/2011	758,782	121.0% *	863,059	106.3%	(2,827,156)
12/31/2012	938,826	107.4% *	1,043,026	96.7%	(2,792,252)
12/31/2013	1,245,532	83.0% *	1,349,030	76.6%	(2,476,409)
12/31/2014	984,161	108.0% *	1,066,904	99.7%	(2,472,807)

*On a 30 year amortization of UAL basis.



CITY OF BRENTWOOD POLICE AND FIREMEN'S PENSION PLAN

Statement of Actuarial Methods and Assumptions

Funding Method:

For Determination of the Recommended Contribution

Aggregate Cost Method - Under this method, the Present Value Future Normal Costs equals the Present Value of Benefits, less Plan Assets.

The Present Value of Future Normal Costs includes the current year Normal Cost and all future Normal Costs for the current participant group. These future costs are spread as a level percentage of current and expected future working years. The portion attributable to current active participants is the current year Normal Cost. The current year Normal Cost is the Recommended Contribution, as by definition there is no Unfunded Accrued Liability.

For GASB 67/68 Purposes

Entry Age Normal Cost Method - A method under which the actuarial present value of the projected benefits of each active participant is allocated on a level basis over the earnings of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to the 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 actuarial gains (losses) are reflected as they occur in a decrease (increase) in the unfunded actuarial accrued liability.

Valuation of Assets

All Assets are valued at Market Value.

Mortality Rates

Pre-Retirement: RP2000 Mortality Male Table, set back 4 years for females

Post-Retirement: RP2000 Mortality Male Table, set back 4 years for females

Long Term Rate of Return on Plan Assets

7.00% per annum: compounded annually

GASB 67/68 Discount Rate

7.00% per annum.

Inflation

2.75% per annum

Salary Appreciation

Increase Rate: 5.00% per annum: compounded annually (includes 2.25% merit component)

Assumed Retirement Age

Age 55 and the completion of 10 Years of Service



**CITY OF BRENTWOOD
POLICE AND FIREMEN'S PENSION PLAN**

**Statement of Actuarial Methods and Assumptions
(Continued)**

Termination prior to Retirement other than Death

T-2 Actuary's Table

<u>Age</u>	<u>Probability of Termination</u>
20	0.054417
30	0.050722
40	0.035105
50	0.004074
55 & over	0.000000

Female ages are set back 3 years

Administrative Expense Load

None Assumed

Cost of Living Provision

It is assumed that the benefit will be increased annually at the rate of two percent, calculated on the basis of simple and not compound interest, with maximum 20% increase.

Assumptions Used to Determine Discount Rate

- Level Employee Population
- Employer contributions increase 2.75% per year from 2015 estimated level
- Municipal Bond Rate of 2.81% is based on approximate 20 year average yield to maturity of AA rated bonds as of December 31, 2014, determined by Morgan Stanley.
- Long-term return assumption applies to all projected cash flows.

Development of Long Term Rate of Return Assumption

<u>Asset Class</u>	<u>Assumed Allocation</u>	<u>Assumed Geometric Real Return</u>
Domestic Equity	45%	6.0%
International Equity	19%	6.0%
Fixed Income	27%	1.5%
Real Estate	8%	4.5%
Cash Equivalents	<u>1%</u>	0.0%
TOTAL	100%	

Amortization Methods For Contribution Alternatives

The Recommended Contribution is based on the Aggregate Cost Method, under which there is no Unfunded Accrued Liability.

The other contribution alternatives shown (10 year, 20 year and 30 year amortizations) are based on an open amortization period that is reset each year. As such, under these methods the Unfunded Accrued Liability is determined under the Entry Age Normal Cost Method and is not expected to be fully amortized.



CITY OF BRENTWOOD POLICE AND FIREMEN'S PENSION PLAN

Summary of Plan Provisions.

Year of Service	An Employee shall accrue a full Year of Service if he is an Employee of the Fire or Police Department for at least six months during an anniversary year of his employment.
Normal Pension	<ul style="list-style-type: none">a) Eligibility requirements: Age 55 with 10 Years of Service.b) Benefit: 3.5% of final two year average salary for each Year of Service for the first 20 years plus 1% of final two year average salary for each of the next 10 years.
Disability Pension	<ul style="list-style-type: none">a) Duty: Greater of (i) 70% of final two year average salary or (ii) 3.5% for each year of service up to 20 years and 1% of final two year average salary for each year of service between 20 and 30 years. Children's benefits are also payable if disablement occurs before age 55.b) Non-duty with 10 or more Years of Service: Greater of (i) 70% of final two year average salary or (ii) 3.5% for each year of service up to 20 years and 1% of final two year average salary for each year of service between 20 and 30 years. Children's benefits are also payable if disablement occurs before age 55.c) Non-duty with 5-9 Years of Service: 30% of final two year average salary. Children's benefits are also payable if disablement occurs before age 55.
Normal Form of Benefit	The Normal Form of payment of the Normal and Disability Pension Benefit is a Life Annuity with a spousal survivor benefit of 66-2/3%, payable until spouse's death or remarriage. Children's benefits are also payable.
Termination Pension	<ul style="list-style-type: none">a) 10 or more Years of Service: Normal Retirement Benefit based on Years of Service to date deferred and payable at Normal Retirement Date.b) Less than 10 Years of Service: Return of the employee's contributions with the interest credited to the employee's account.
Death Benefit	<ul style="list-style-type: none">a) Duty: Greater of (i) 40% of final two year average salary or (ii) 2.165% for each year of service up to 20 years and 0.67% of final two year average salary for each year of service between 20 and 30 years. Children's benefits are also payable.



CITY OF BRENTWOOD POLICE AND FIREMEN'S PENSION PLAN

Summary of Plan Provisions. (Continued)

- b) Non-duty with 10 or more Years of Service: Greater of (i) 40% of final two year average salary or (ii) 2.165% for each year of service up to 20 years and 0.67% of final two year average salary for each year of service between 20 and 30 years. Children's benefits are also payable.
- c) Non-duty with 5-9 Years of Service: 1.08% of final two year average salary for each Year of Service. Children's benefits are also payable.

Funeral Benefit

\$5,000 is payable in addition to the death benefit listed above.

Children's Benefit

10% of two year average salary for each child under age 18, with a maximum of 3 children. One half of this amount is payable for non-line of duty death or disability with 5 to 9 Years of Service.

Cost of Living Provision

- a) Eligibility requirements: retire from active.
- b) Amount: 2% increase annually on the basis of simple and not compound interest with maximum 20% increase.