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January 21, 2010

Ms. Helen Kemp
Assistant Director, Division Counsel
Municipal Employees Retirement System
Office of the State Comptroller
55 Elm Street
Hartford, CT 06106

Dear Ms. Kemp:

As you are aware, under the terms of the current contract between the Municipal Employees Retirement System (MERS) and Buck Consultants, actuarial valuations will now be performed on a biennial basis, with the next full valuation scheduled as of July 1, 2010. In lieu of a full valuation as of July 1, 2009, the contract calls for Buck to roll forward the liabilities from the previous year, and using updated asset information determine the funding requirements and the funded status of the System. Unless otherwise noted, all roll forward calculations were based on the same membership data, provisions, actuarial assumptions and methods as those used in the July 1, 2008 valuation.

MERS staff provided us with updated asset information (Statement of Operations and Balance Sheet) as of June 30, 2009. Reviewing this information shows an investment return of -15.10% on a market value basis and a return of -6.86% on an actuarial value basis. Based on our rolled forward calculations and the significant investment losses for the year, we have determined that MERS has an overall unfunded accrued liability, i.e. the Stabilization Reserve no longer exists as the accrued liabilities exceed the sum of the valuation assets (limited to 120% of market value) and the present value of future amortization payments. The Stabilization Reserve was approximately $93.63 million last year and we have calculated the unfunded accrued liability to be approximately $168.85 million this year.

As we have discussed with MERS and the Actuarial Sub-Committee over the last year, without a significant investment turnaround, the likelihood of an unfunded situation was high. Keep in mind that the assets used in our roll forward are as of June 30, 2009 and any gains or losses incurred in the latter half of calendar year 2009 are not reflected. As a result of this expectation, last year's annual letter from MERS to the participating municipalities contained additional wording informing them of a potential significant increase in future contribution rates. Those additional increases were approximately 3% for general employees and 4-5% for policemen and firemen. These rates were based on a 30-year level dollar amortization of the projected deficit, the same method as used to develop the amortization payments to MERS each July 1st, divided by projected payroll. Our roll forward results show similar unfunded percentages.

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The table below summarizes the employer contribution requirements as compared to last year.

	FYE June 30, 2010	FYE June 30, 2011		
	Total Contribution Rate	Normal Cost Rate	Unfunded Accrued Liability Rate	Total Contribution Rate
General Employees:				
With Social Security	7.50%	7.62%	3.11%	10.73%
Without Social Security	7.50%	7.82%	2.97%	10.79%
Police and Fire:				
With Social Security	9.75%	11.22%	5.61%	16.83%
Without Social Security	9.50%	10.39%	4.49%	14.88%

In addition to the contribution rates shown above, the municipalities must also contribute the amortization payments toward their Unfunded Accrued Liability that was established upon their joining MERS.

Additional exhibits that summarize the main results of the roll forward are attached. We look forward to discussing these results and alternative funding scenarios with you and the Sub-Committee.

We are both Members of the American Academy of Actuaries and meet the Academy's Qualification Standards to issue this Statement of Actuarial Opinion. The valuation roll forward was prepared in accordance with the principles of practice prescribed by the Actuarial Standards Board. The actuarial calculations were performed by qualified actuaries according to generally accepted actuarial procedures and methods. The calculations are based on the current provisions of the System, and on actuarial assumptions that are, in the aggregate, internally consistent and reasonably based on the actual experience of the System.

Respectfully submitted,

Philip Bonanno, ASA, EA, MAAA, FCA
Director, Consulting Actuary

Janet H. Cranna, FSA, EA, MAAA, FCA
Principal, Consulting Actuary

PB/JC/ss
Enclosure
CT MERS - Roll Forward Val Results - 6.30.2009.doc

cc: Ms. Kathryn Balut

DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

Valuation Date June 30:	2005	2006	2007	2008	2009
A. Actuarial Value Beginning of Year	$ 1,454,706,352	$ 1,512,473,272	$ 1,587,659,815	$ 1,700,682,361	$ 1,779,098,599
B. Market Value Beginning of Year	1,306,142,410	1,397,879,246	1,509,066,613	1,729,338,367	1,632,013,825
C. Cash Flow					
C1. Contributions	34,026,076	41,644,358	52,502,128	56,453,606	50,730,968
C2. Transfers	4,779	0	0	0	0
C3. Benefit Payments	(69,747,511)	(73,994,846)	(80,408,641)	(84,626,814)	(90,530,711)
C4. Net	(35,716,656)	(32,350,488)	(27,906,513)	(28,173,208)	(39,799,743)
D. Investment Income					
D1. Market Return	127,453,492	143,537,855	248,178,267	(69,151,334)	(243,408,667)
D2. Expected Actuarial Return	122,132,082	127,185,332	133,765,057	143,360,639	145,133,895
E. Expected Actuarial Value End of Year	1,541,121,778	1,607,308,116	1,693,518,359	1,815,869,792	1,884,432,751
F. Market Value End of Year (including receivables)	1,397,879,246	1,509,066,613	1,729,338,367	1,632,013,825	1,348,805,415
G. Phased-In Recognition of Investment Income					
G1. Difference between Market and Expected Actuarial Value	(143,242,532)	(98,241,503)	35,820,008	(183,855,967)	(535,627,336)
G2. 20% of Difference (0.2 * G1)	(28,648,506)	(19,648,301)	7,164,002	(36,771,193)	(107,125,467)
G3. Preliminary Actuarial Value End of Year	1,512,473,272	1,587,659,815	1,700,682,361	1,779,098,599	1,777,307,284
G4. Minimum = 80% of Market Value (0.8 * F)	1,118,303,397	1,207,253,290	1,383,470,694	1,305,611,060	1,079,044,332
G5. Maximum = 120% of Market Value (1.2 * F)	1,677,455,095	1,810,879,936	2,075,206,040	1,958,416,590	1,618,566,498
G6. Actuarial Value End of Year (G3, subject to G4 & G5)	$ 1,512,473,272	$ 1,587,659,815	$ 1,700,682,361	$ 1,779,098,599	$ 1,618,566,498
H. Difference Between Market and Actuarial Values	$ (114,594,026)	$ (78,593,202)	$ 28,656,006	$ (147,084,774)	$ (269,761,083)
I. Recognized Rate of Return	6.51%	7.19%	8.96%	6.32%	(6.86)%
J. Market Value Rate of Return	9.89%	10.39%	16.60%	(4.03)%	(15.10)%

The Actuarial Value of Assets recognizes expected investment income (line D2) along with 20% of its difference (gain/loss) with the market return (line D1) in the valuation year, in addition to 20% of any prior years' unrecognized gains/losses. During periods when investment performance exceeds the assumed rate, Actuarial Value of Assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, Actuarial Value of Assets will tend to be greater than market value.

SUMMARY OF NET UNFUNDED ACCRUED LIABILITY

		General Employees with Social Security		General Employees without Social Security		Police and Fire with Social Security		Police and Fire without Social Security		Total	
		July 1, 2009	July 1, 2008	July 1, 2009	July 1, 2008	July 1, 2009	July 1, 2008	July 1, 2009	July 1, 2008	July 1, 2009	July 1, 2008
a)	Total Accrued Liability	$ 741,863,129	$ 700,868,035	$ 652,196,597	$ 622,565,578	$ 156,130,072	$ 146,684,911	$ 270,668,355	$ 251,722,762	$ 1,820,858,153	$ 1,721,841,286
b)	Actuarial Value of Assets	650,536,416	713,657,851	607,906,279	674,484,769	127,976,189	139,689,896	232,147,614	251,266,083	1,618,566,498	1,779,098,599
c)	Total Unfunded Accrued Liability [c = a - b]	$ 91,326,713	$ (12,789,816)	$ 44,290,318	$ (51,919,191)	$ 28,153,882	$ 6,995,015	$ 38,520,741	$ 456,679	$ 202,291,655	$ (57,257,313)
d)	Present Value of Remaining Prior Service Amortization Payments	17,450,142	18,645,123	1,214,610	1,306,767	7,523,123	8,242,040	7,252,382	8,178,886	33,440,257	36,372,816
e)	Net Unfunded Accrued Liability [e = c - d]	$ 73,876,571	$ (31,434,939)	$ 43,075,708	$ (53,225,958)	$ 20,630,759	$ (1,247,025)	$ 31,268,359	$ (7,722,207)	$ 168,851,398	$ (93,630,129)

SUMMARY OF TOTAL CONTRIBUTION RATES

	FYE June 30, 2010	FYE June 30, 2011		
	Total Contribution Rate	Employer Normal Cost Rate	Net UAL % *	Total %
General Employees:				
With Social Security	7.50%	7.62%	3.11%	10.73%
Without Social Security	7.50%	7.82%	2.97%	10.79%
Police and Fire:				
With Social Security	9.75%	11.22%	5.61%	16.83%
Without Social Security	9.50%	10.39%	4.49%	14.88%

* UAL amortization over a 30-year period on a level dollar basis divided by projected payroll

Note: In addtion to the above contribution percentages, the municipalities are also responsible for the amortization payments toward their UAL established upon their joining MERS.