

October 2011

# Actuarial Valuation Report as of July 1, 2011

## Archdiocese of Dubuque Priests' Pension Plan

**MERCER**

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## Introduction

This report has been prepared for the Archdiocese of Dubuque Priests' Pension Plan by Mercer to:

- Present the results of a valuation of the plan as of July 1, 2011;
- Provide to the plan sponsor the recommended funding contributions for the fiscal year beginning July 1, 2011 and ending June 30, 2012; and
- Provide to the plan sponsor the disclosure requirements of ASC 960 (formerly FAS #35).

## Highlights

	Valuation Date		Change
	July 1, 2010	July 1, 2011	
<b>Background Information</b>			
1. Census Data			
a. Active	107	102	(5)
b. Leave of Absence	3	2	(1)
c. Retired	91	91	0
<b>d. Total</b>	<b>201</b>	<b>195</b>	<b>(6)</b>
<b>Funding Information – Baseline Assumptions</b>			
1. Present Value of Projected Benefits	\$ 23,353,263	\$ 24,841,728	\$ 1,488,465
2. Market Value of Assets	20,423,517	23,214,071	2,790,554
3. Surplus/(Deficit)	(2,929,746)	(1,627,657)	(1,302,089)
4. Recommended Contribution*	373,639	244,178	(129,461)
(per active priest)	4,106	2,744	(1,362)
<b>Accounting Information – Baseline</b>			
1. Present Value of Accumulated Plan Benefits	\$ 22,863,573	\$ 24,193,817	\$ 1,330,244
2. Funded Ratio	89%	96%	
<b>Baseline Assumptions</b>			
1. Interest	8.0%	7.0%	
2. Inflation			
a. Medical	0.0%	0.0%	
b. Pension	0.0%	0.0%	

\* Although the Recommended Contribution under the Baseline assumption (which assumes no future increase in benefits) is less than \$300,000, the Recommended Contributions under the alternative assumptions are significantly higher.

## Discussion

Following is a discussion of the significant items which have had an impact on the valuation results.

### Overview

The purpose of this actuarial valuation is to provide a financial analysis of the Archdiocese of Dubuque Priests' Pension Plan. The key liability measures are:

Present Value of Projected Benefits	Equals the present value of benefits, based on service at age 70 for all Priests, which will eventually be paid by the plan. It includes the value of benefits based upon future years of service for active Priests.
Present Value of Accumulated Benefits	Equals the present value of benefits based on today's service for all Priests that will eventually be paid by the Plan. Future years of service are not reflected for active Priests.

In order to determine the long range funding status of this plan, alternative assumptions are presented. Many things can have an impact on the solvency of pension plans (e.g., investment experience, medical inflation and pension improvements). The following table outlines the various assumptions presented throughout this report in order to add perspective to this valuation. Specifically, Alternatives 2 and 3 highlight the impact inflationary changes can have on the funding of this plan. Similarly, Alternative 1 shows the impact of changing the investment return assumption that is used to value the plan liabilities.

	Recommended Contribution			
	Baseline	Alternatives		
		1	2	3
Interest	7.0%	8.0%	7.0%	7.0%
Retirement Inflation	0.0%	3.0%	3.0%	4.0%
Medical Inflation	0.0%	5.0%	5.0%	6.0%
Actuarial Present Value of Projected Benefits	\$ 24,841,728	\$ 31,258,325	\$ 34,813,215	\$ 39,191,039
Market Value of Assets	23,214,071	23,214,071	23,214,071	23,214,071
Surplus/(Deficit)	(1,627,657)	(8,044,254)	(11,599,144)	(15,976,968)
<b>Recommended Contribution (Mid-Year)</b>	<b>244,178</b>	<b>1,070,530</b>	<b>1,423,342</b>	<b>1,941,029</b>
<b>Per Active Priest</b>	<b>2,744</b>	<b>12,028</b>	<b>15,993</b>	<b>21,809</b>

The baseline assumptions represent the Archdiocese's current target for pre-funding future liabilities. Alternatives 2 and 3 are the most consistent with actual policy over the last 10 years.

## Discussion *(continued)*

The monthly medical benefit used for valuation purposes is an amount based on the average of the medical insurance premium, prescription drug reimbursement, and dental costs for the prior plan year. This average monthly benefit increased 7.7% (from \$452 per participant on July 1, 2010 to \$487 per participant on July 1, 2011). The monthly retirement benefit increased 1.5% (from \$1,705 per participant on July 1, 2010 to \$1,730 per participant on July 1, 2011). This change had the following impact on plan liabilities:

	<b>Actuarial Present Value of Accumulated Plan Liability as of July 1, 2011</b>			
	<b>Baseline</b>	<b>Alternatives</b>		
		<b>1</b>	<b>2</b>	<b>3</b>
1. Increase/(decrease) in present value of accumulated benefits				
a. Due to increase in retirement benefit	\$ 252,000	\$ (331,000)	\$ (361,000)	\$ (659,000)
b. Due to increase in average medical benefit	363,000	199,000	225,000	172,000
<b>c. Total increase/(decrease)</b>	<b>615,000</b>	<b>(132,000)</b>	<b>(136,000)</b>	<b>(487,000)</b>
2. Increase/(decrease) in present value of projected benefits				
a. Due to increase in retirement benefit	259,000	(348,000)	(385,000)	(714,000)
b. Due to increase in average medical benefit	363,000	199,000	225,000	172,000
<b>c. Total increase/(decrease)</b>	<b>622,000</b>	<b>(149,000)</b>	<b>(160,000)</b>	<b>(542,000)</b>
3. Increase/(decrease) in recommended contribution due to increase in retirement and medical benefits				
a. Total paid mid-year	79,700	(19,000)	(19,000)	(64,000)
b. Per active priest	900	(200)	(200)	(700)

In addition to the changes in the monthly medical and retirement benefits, the baseline interest assumption was changed from 8% to 7%. This change increased the baseline Present Value of Projected Benefits by \$1,863,000, increased the baseline Present Value of Accumulated Benefits by \$1,709,000, and increased the baseline Recommended Contribution by \$222,000.

Finally, since administrative expenses are paid from plan assets, an explicit expense assumption equal to \$50,000 was added this year. The addition of this expense assumption had no impact on plan liabilities but increased the Recommended Contribution by \$52,000.

### Cash Flow

For your information, the expected annual benefit payments for retired Priests\* are summarized below:

#### Retirement

▪ Pension	\$ 2,097,000
▪ Medical	590,000
<b>Total</b>	<b>2,687,000</b>

\* Assumes actives working beyond Normal Retirement retire on July 1, 2011 per the valuation assumptions.

## Discussion *(continued)*

### Assets

The Market Value of Assets increased from \$20,423,517 on July 1, 2010 to \$23,214,071 on July 1, 2011. This increase was primarily due to a 20.0% return on investments and a contribution of \$1,451,000.

### Accounting Considerations

Plan liabilities, as determined under ASC 960 (formerly FAS #35), may be compared with assets to detect shifts in the funded status of the plan. The comparison is a ratio of plan assets to the present value of accumulated plan benefits. These funding ratios for 2010 and 2011 are shown below:

	Funding Ratio Alternatives			
	Baseline	1	2	3
2010	89%	67%	61%	61%
2011	96%	77%	70%	63%

The primary reason for the increase in funding ratios is the 20.0% return on plan assets. The baseline and Alternative 3 funding ratios also reflect a change in interest rate from 8% to 7%.

## Historical Overview

In this section, historical information on the plan is presented as follows:

- Plan Participants

## Plan Participants

	4/1/1998	7/1/1999	7/1/2000	7/1/2001	7/1/2002	7/1/2003	7/1/2004	7/1/2005	7/1/2006	7/1/2007	7/1/2008	7/1/2009	7/1/2010	7/1/2011
<u>Active</u>														
▪ Number	171	162	154	150	142	135	137	126	124	120	116	115	107	102
▪ Average Age	56.6	56.7	55.8	56.0	55.5	55.2	55.3	55.6	56.0	56.2	56.7	56.9	57.0	56.3
▪ Average Service (years)	29.1	29.2	27.9	27.8	27.3	26.9	26.8	26.9	27.1	27.4	28.0	28.0	27.8	26.9
<u>Leave of Absence</u>														
▪ Number								3	2	3	3	3	3	2
▪ Average														
- Age								51.5	48.3	46.4	47.4	48.4	49.4	52.2
- Monthly Pension								\$ 632	\$ 592	\$ 613	\$ 613	\$ 613	\$ 613	\$ 619
<u>Retired</u>														
▪ Number	95	93	97	94	96	98	97	100	97	89	89	86	91	91
▪ Average														
- Age	77.7	76.8	76.6	77.0	77.3	77.5	78.0	78.4	78.7	78.6	79.0	79.4	79.6	79.9
- Monthly Pension	\$1,150	\$1,285	\$1,320	\$1,365	\$1,390	\$1,420	\$1,450	\$1,500	\$1,549	\$1,595	\$1,660	\$1,660	\$1,705	\$1,730
- Average Monthly Medical	\$ 220	\$ 220	\$ 320	\$ 282	\$ 297	\$ 312	\$ 379	\$ 358	\$ 418	\$ 418	\$ 417	\$ 430	\$ 452	\$ 487
<u>Participant Changes</u>														
New Entrants	5	3	6	2	3	2	4	1	1	2	1	2	0	2
Retirements	9	13	14	4	8	8	2	6	3	2	3	3	8	6
Deaths														
▪ Active	1	0	0	2	3	1	0	1	1	2	2	0	0	0
▪ Retired	10	14	10	5	6	6	3	4	6	10	3	6	3	6
Leave of Absence	0	0	0	0	0	0	0	5	0	2	0	0	0	0
Returned from Leave									1	0	0	0	0	0

## Certification

Mercer has prepared this report exclusively for the Archdiocese of Dubuque for the following purposes:

- Present the results of a valuation of the Archdiocese of Dubuque's Priests' Pension Plan as of July 1, 2011
- Review plan experience for the year ended June 30, 2011
- Provide the plan sponsor with the acceptable range of plan contributions for the year ending June 30, 2012

This valuation report may not be relied upon for any other purpose or by any party other than the Archdiocese of Dubuque. Mercer is not responsible for the consequences of any other use. A valuation report is a snapshot of a plan's estimated financial condition at a particular point in time; it does not predict a pension plan's future financial condition or its ability to pay benefits in the future.

Over time, a plan's total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of people paid benefits and the amount earned on any assets invested to pay benefits. These amounts and other variables are uncertain and unknowable at the valuation date, but are predicted to fall within a reasonable range of possibilities.

To prepare this report, *actuarial assumptions*, as described in this report, are used to select scenarios from the range of possibilities. The results of those scenarios are included in this report. However, the future is uncertain and the plan's actual experience will differ from those assumptions; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different. Actuarial assumptions may also be changed from one valuation to the next because of changes in IRS requirements, plan experience, changes in expectations about the future and other factors.

Because actual plan experience will differ from the assumptions, decisions about benefit changes, investment policy, funding amounts, benefit security and/or benefit-related issues should be made only after careful consideration of alternative future financial conditions and scenarios, and not solely on the basis of a valuation report or reports.

### Data


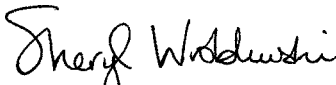
To prepare this report, Mercer has used and relied on financial data submitted by the Archdiocese as well as participant data supplied by the Archdiocese. The data used is summarized herein. We have reviewed the financial and participant data for internal consistency and general reasonableness, but we have not verified or audited any of the data or information provided. Finally, we have used and relied on the plan documents, including amendments, supplied by the Archdiocese as summarized in this report. The plan sponsor is solely responsible for the validity, accuracy and comprehensiveness of this information. If the data or plan provisions supplied are not accurate and complete, the valuation results may differ significantly from the results that would be obtained with accurate and complete information; this may require a later revision of this report.

**Contributions**

In computing the acceptable range of contributions, all costs, liabilities and other factors under the plan were determined in accordance with generally accepted actuarial principles and procedures. In our opinion, the baseline actuarial assumptions, other than the inflation assumption, are reasonable and represent our best estimate of the plan's anticipated experience with respect to those assumptions. The baseline inflation assumptions represent the Archdiocese's current target for pre-funding future liabilities. This report fully and fairly discloses the actuarial position of the plan on an ongoing basis.

**Professional qualifications**

We are available to answer any questions on the material in this report or to provide explanations or further details as appropriate. The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. We are not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest that would impair the objectivity of our work.

 <hr/> <p><b>Bonita J. Wurst, ASA</b></p>	<p>October 4, 2011</p> <hr/> <p><b>Date</b></p>
 <hr/> <p><b>Sheryl L. Wroblewski</b></p> <p>Mercer          333 South 7th Street, Suite 1600          Minneapolis, MN 55402</p> <p>☎612 642 8600</p>	<p>October 4, 2011</p> <hr/> <p><b>Date</b></p>

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