# United States Army Nonappropriated Fund Employee Retirement Plan

## Actuarial Valuation Report as of October 1, 2014

**Produced by Cheiron**

**May 2015**

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May 19, 2015

Mr. Ronald Heuer
Chief, NAF Personnel Services Division
U.S. Army Family and MWR Command
P.O. Box 340309
Fort Sam Houston, TX 78234

Dear Mr. Heuer:

At your request, we have conducted our annual actuarial valuation of the United States Army Nonappropriated Fund Employee Retirement Plan as of October 1, 2014. The results of the valuation are contained in the following report. The purpose of this report is to present the annual actuarial valuation of the United States Army Nonappropriated Fund Employee Retirement Plan. This report is for the use of the United States Army Nonappropriated Fund Employee Retirement Plan and its auditors in preparing financial reports in accordance with applicable law and accounting requirements.

To the best of our knowledge, this report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This actuarial report was prepared exclusively for the United States Army Nonappropriated Fund Employee Retirement Plan for the purpose described herein. Other users of this actuarial report are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

Sincerely,

| | |
|---|---|
| Kevin J. Woodrich, FSA, FCA, EA, MAAA | Janet H. Cranna, FSA, FCA, EA, MAAA |
| Principal Consulting Actuary | Principal Consulting Actuary |

cc: Alison Chafin, ASA, MAAA

# FOREWORD

Cheiron has performed the actuarial valuation of the United States Army Nonappropriated Fund Employee Retirement Plan as of October 1, 2014. The purpose of this report is to:

1) **Determine the contributions** to be paid to the Plan for the fiscal year beginning October 1, 2015;
2) **Measure and disclose**, as of the valuation date, the financial condition of the Plan;
3) **Indicate trends** in the financial progress of the Plan; and
4) **Provide specific information** and documentation required by P.L. 95-595.

An actuarial valuation establishes and analyzes Plan assets and liabilities on a consistent basis, and traces the progress of both from one year to the next. It includes measurement of the Plan's investment performance as well as an analysis of Actuarial Liability gains and losses.

**Section I** presents a summary containing our findings and discloses important trends experienced by the Plan in recent years, as well as projections of the Plan under differing assumed future investment returns.

**Section II** contains various exhibits used in determining the financial condition of the Plan.

**Section III** includes the required disclosures and specific information required by P.L. 95-595.

Within Section III of this report is a summary of the Plan's membership at the valuation date, a summary of the major provisions of the Plan, and the actuarial methods and assumptions used in the valuation.

In preparing our report, we relied on information (some oral and some written) supplied by the Employee Benefits Office, John Hancock Mutual Life Insurance Company, and Ameritas. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23.

The actuarial assumptions used in performing this valuation have been recommended by the actuary in the most recent review of the Plan's experience completed concurrently with the October 1, 2014 actuarial valuation. Future valuation reports may differ significantly from the current valuation report due to such factors as the following: plan experience differing from that anticipated by the assumptions; changes in assumptions; and changes in plan provisions or applicable law.

Finally, in preparing this report, we have conformed to generally accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board.

**SECTION I**
**SUMMARY**

## Comments

In this section, we first discuss the trends of the Plan over the past fifteen years, and then show projections of the contribution rate and funding status. Please remember that these projections make certain assumptions about future investment returns, future salary increases, future inflation, future contribution levels, and future behavior of plan participants. We cannot know what will actually happen, but these projections should provide a better understanding of the Plan's dynamics. Future experience of the Plan, particularly the financial market performance, will greatly impact what future contributions are necessary.

For the fiscal year ending September 30, 2015, employers are contributing to the Plan at the rate of 7.60% of payroll. For the fiscal year ending September 30, 2016, the underlying value of benefits being accumulated is 6.71% of payroll (net of the 2.00% employee contribution). The actuarial employer contribution rate, which includes the value of the benefits being accumulated plus the 15-year level amortization of the Unfunded Actuarial Liability (UAL) and assumed administrative expenses, is 8.24% of payroll for Fiscal Year 2015-16. The amounts and rates on the tables found on pages 28 and 29, respectively, reflect a 40-year amortization of the UAL. However, these are not indicative of the Plan's funding goals but rather our understanding of the information to be disclosed under PL 95-595. If this is incorrect, please let us know and we will modify these tables accordingly. Finally, our analysis shows that the current employer contribution rate of 7.60% is anticipated to marginally increase the funded ratio over time if all actuarial assumptions are exactly realized, as evidenced by the long-term funding projections shown later in this section.

## Recent Experience

The financial markets performed above our assumption during the fiscal year ending September 30, 2014. The actual return net of investment expenses on a Market Value basis was approximately 11.96% compared with last year's assumed rate of return of 8.00%. The return on an Actuarial Value basis, which smooths recent market fluctuations, was approximately 9.04%, which equated to an investment gain of $12.5 million on an actuarial basis.

On the liability side, the Plan's experience resulted in an actuarial gain of $10.3 million (approximately 0.8% of the total Actuarial Liability). This liability gain was primarily attributable to salaries increasing less than assumed ($6.5 million gain) and experience on inactive lives including the post-retirement cost of living adjustment granted that was less than assumed ($13.3 million gain), offset by unfavorable experience on actives ($6.4 million loss). In addition, an experience study was performed concurrent with this actuarial valuation, updating both the economic and demographic assumptions, which decreased the Actuarial Liability by $1.4 million. This change in assumptions accounted for a 0.11% decrease in the actuarial employer contribution rate. Further details on the assumption changes are provided in Exhibit III-10 later in this report.

The combination of liability and investment experience over the last year, and the change in assumptions, has produced an increase in the Plan's funding ratio (Actuarial Value of Assets divided by Actuarial Liability) from 93.1% at October 1, 2013 to 95.4% at October 1, 2014.

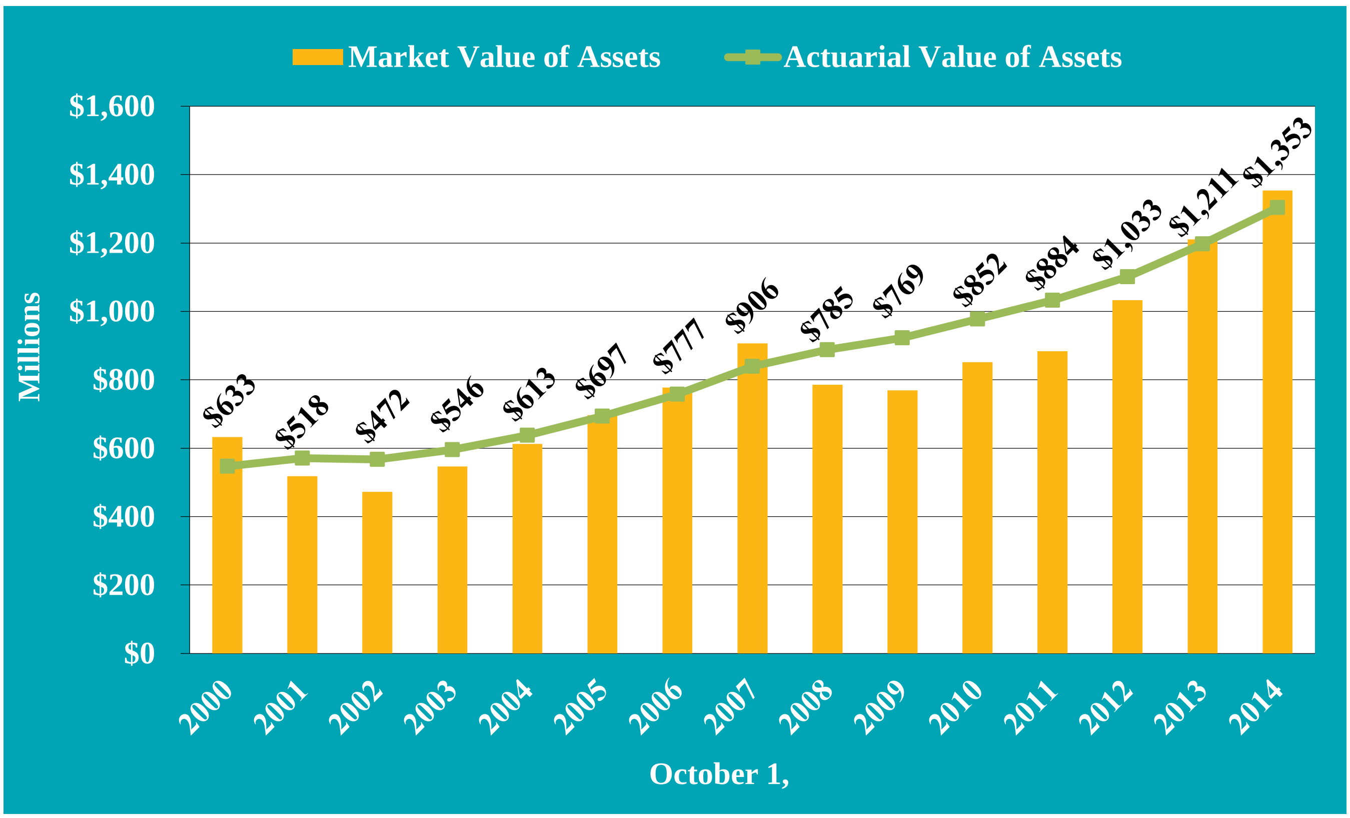
**SECTION I**
**SUMMARY**

## Trends

We think it is important to take a step back from these latest results and view them in the context of the Plan's recent history. In the following pages, we present a series of charts which display key factors of the valuations in previous years.

*Growth in Assets*

This chart compares the Market Value of Assets (MVA) and the Actuarial Value of Assets (AVA). The AVA are market values which have been "smoothed" based on actuarial methods used to estimate long-term asset values. This asset value is used for evaluating the Plan's ongoing liability to meet its obligations. Note how the actuarial smoothing technique has provided a smoother progression of assets over the last 15 years.



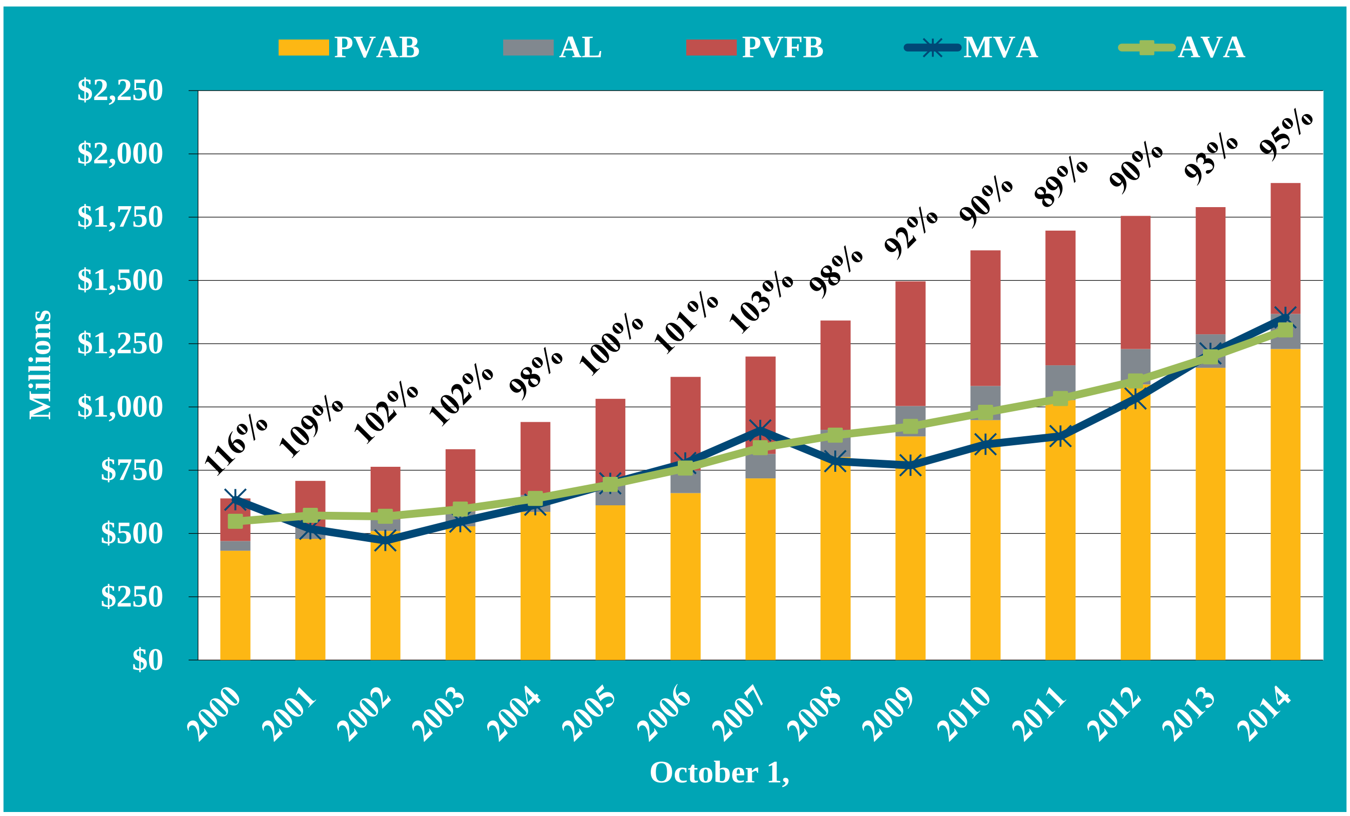

The downward trend in Market Value of Assets due to the bear market was reversed in 2003 and the Market Value had continued to rebound up until 2008 and 2009. It has increased in each of the past five years. The Actuarial Value of Assets of $1,304 million as of September 30, 2014 is slightly less than the Market Value of $1,353 million as of the same date.

Over the period October 1, 2013 to September 30, 2014, the Plan's assets returned 11.96% when measured at Market Value net of investment expenses. The Actuarial Value return was 9.04%, compared to last year's valuation assumption of 8.00% during that same period.

# SECTION I
# SUMMARY

*Assets and Liabilities*

The three colored bars represent the three different measures of liability mentioned in this report. The amount represented by the top of the maroon bars, the Present Value of Future Benefits (PVFB), is the amount needed to provide all benefits for the current participants and their beneficiaries. If the Plan had assets equal to the PVFB, then no future contributions (neither from the employer nor from members) would be needed for the current members if all the assumptions were realized. The Actuarial Liability (AL), a measure for funding purposes, is represented by the top of the gray bar. The AL is the portion of the PVFB which will not be paid by future normal costs. Finally, the top of the yellow bar represents the present value of benefits that participants have accrued as of that date. This measure of liability is often referred to as the Present Value of Accumulated Benefits (PVAB.) For funding purposes, we compare the Actuarial Value of Assets (green line) to the Actuarial Liability in developing the funded percent. These are the percentages shown in the graph labels.

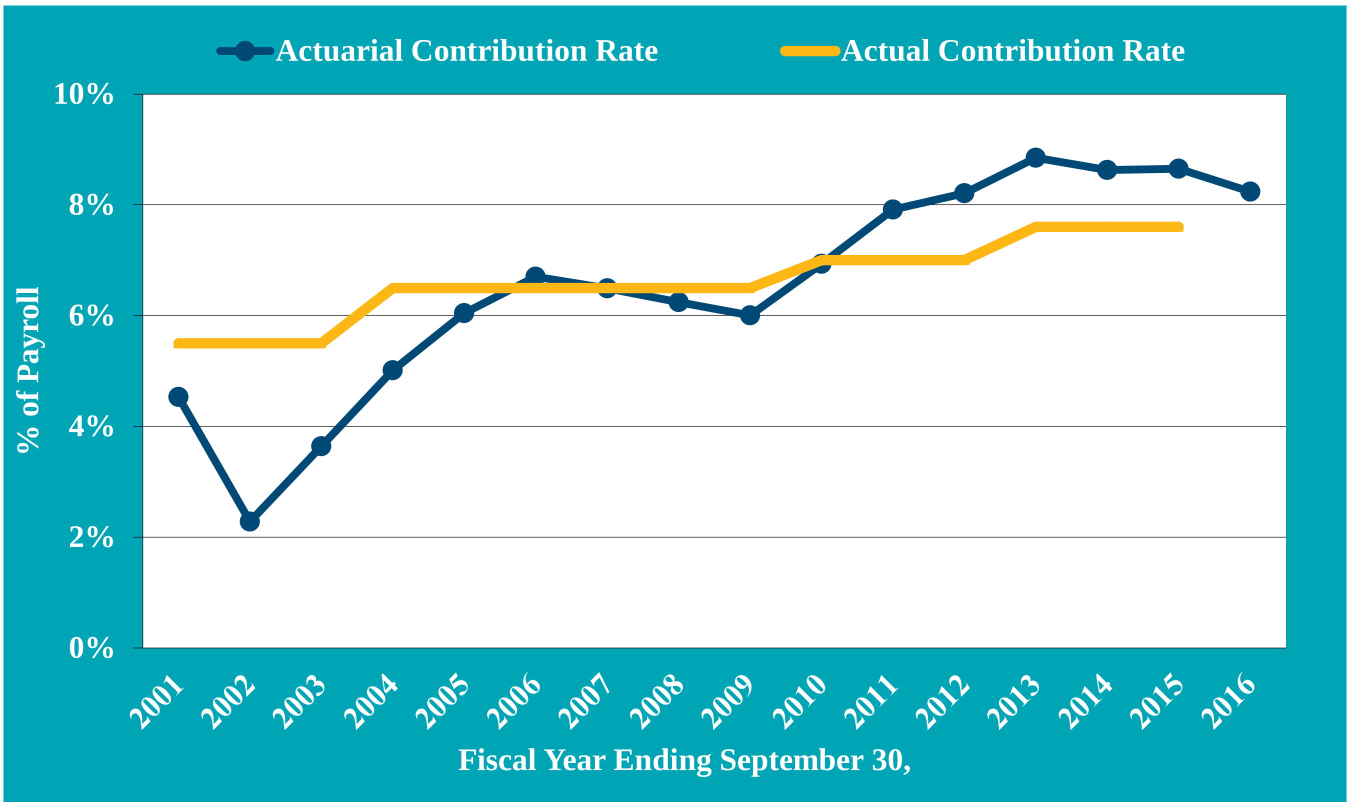


## SECTION I
## SUMMARY

*Contribution Rates*

This graph shows the actual employer contribution rate compared to the actuarially calculated contribution rate, denominated as a percent of payroll. The actuarially calculated rate represents the employer normal cost including assumed administrative expenses plus 15-year amortization of any unfunded liability (or surplus).

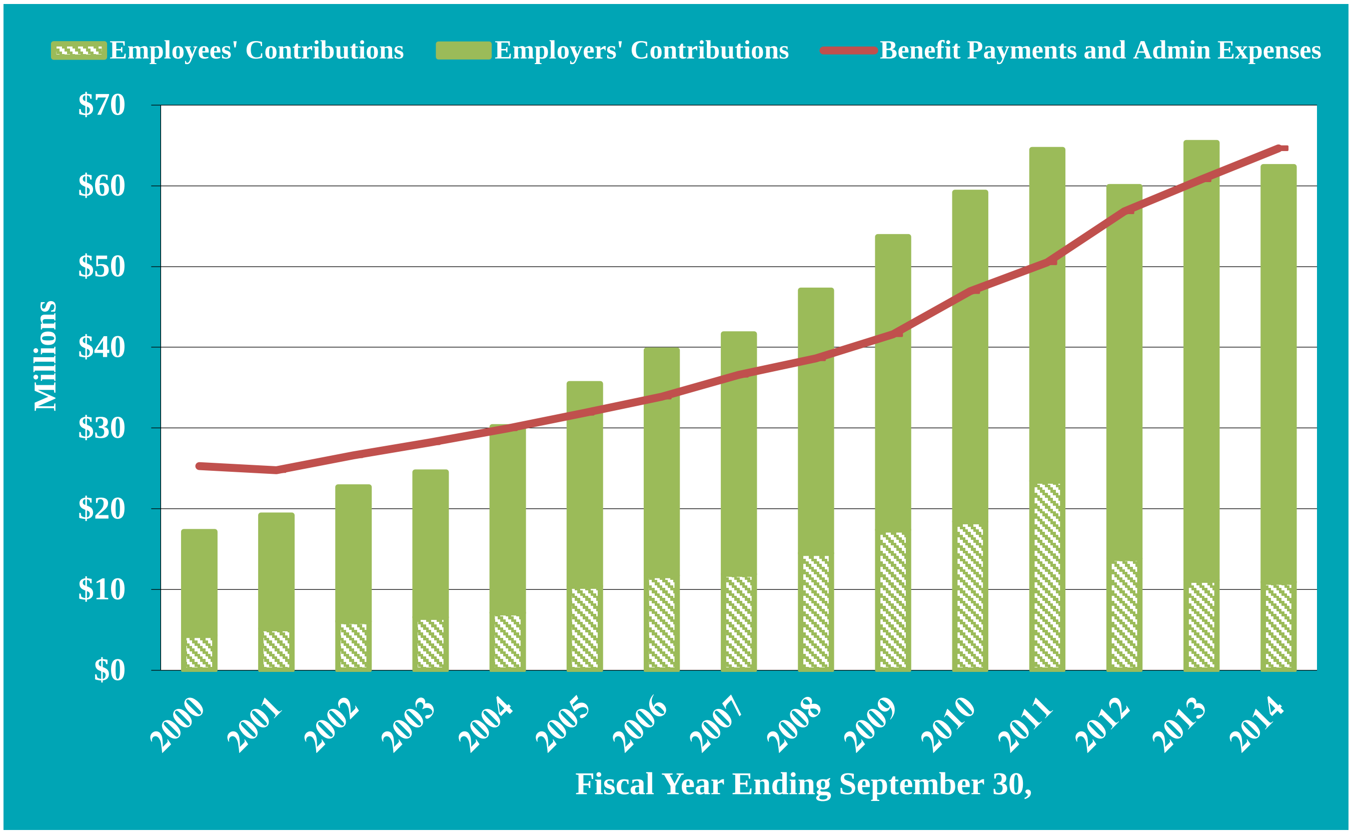
As of the previous valuation, the underlying actuarial rate was expected to slightly decrease to 8.58% for the Fiscal Year 2015-16. However, the favorable asset and liability experience, along with updates to the assumptions due to the experience study performed concurrent with this actuarial valuation, resulted in the actuarial rate of 8.24% for Fiscal Year 2015-16, which is still above the current employer contribution policy of 7.60%.



## SECTION I
## SUMMARY

*Cash Flows*

This graph shows the historical cash flows of the Plan – employer and member contributions compared to the benefit payments and administrative expenses from the Plan. The Plan has maintained a positive cash flow since changing to mandatory participation for new hires, with the exception of the fiscal year ending September 30, 2014.

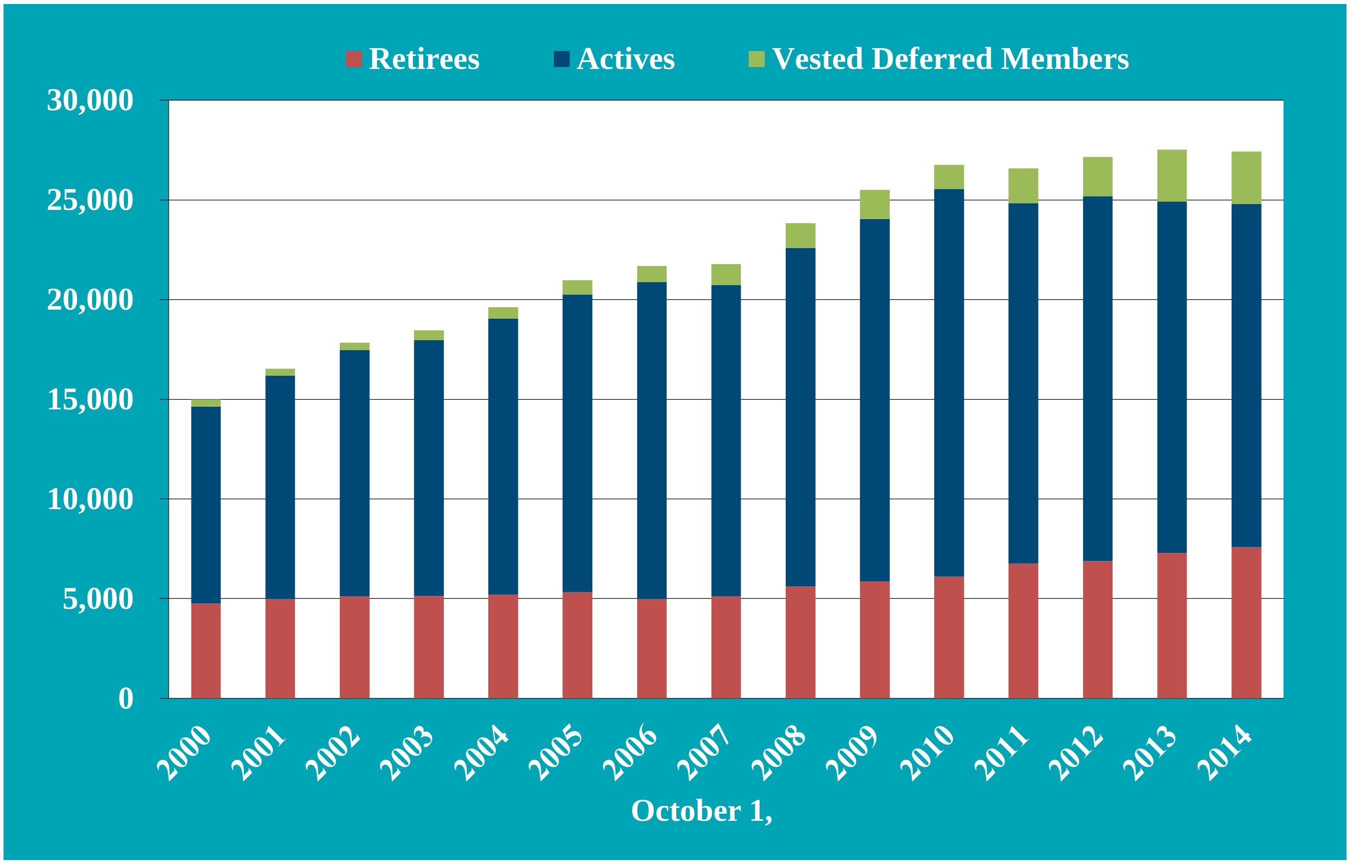


## SECTION I
## SUMMARY

*Participant Trends*

As with many funds in this country, there has been a steady growth in the number of retired members as the Plan has matured. The chart also shows that the number of actives covered by the Plan decreased from the prior year. The overall count stayed relatively stable.

In addition to the participants shown below, there are 22,395 participants who are no longer working but are entitled to a refund of their employee contribution account balance. These balances represent about $12.9 million, or 0.94% of the Actuarial Liability.

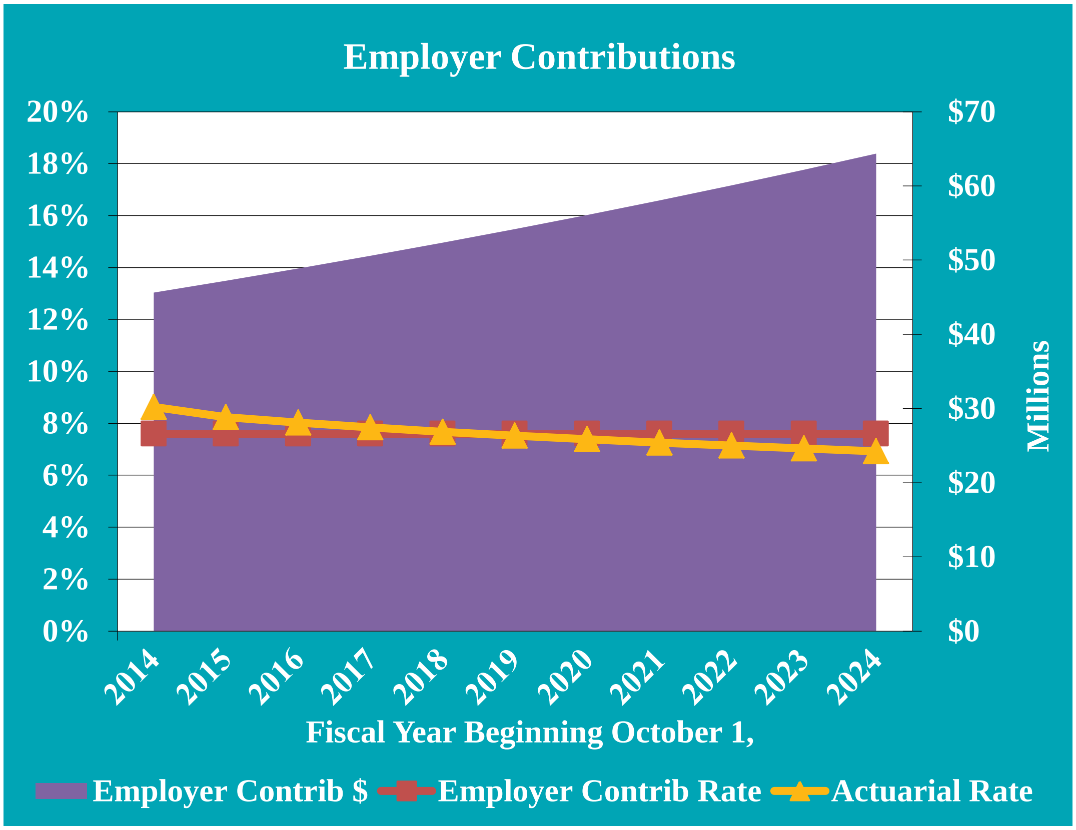


**SECTION I**
**SUMMARY**

## Future Outlook

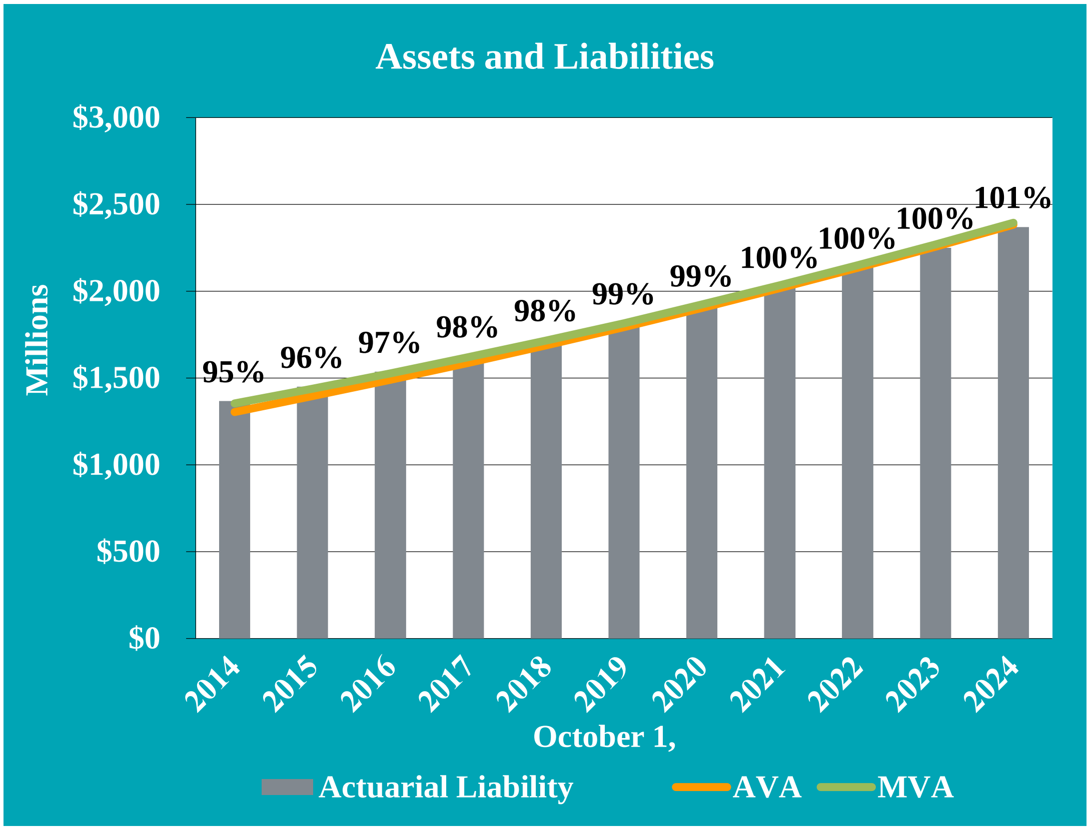
*Base Line Projection*

The two charts that follow show the expected progress of the Plan over the next 10 years, assuming that the Plan's assets earn 7.50% on their *market value.* In the chart below, the purple shaded area represents the anticipated dollar amount (aligned with the amounts on the right axis) contributed by the employer at 7.60% of payroll.



## SECTION I
## SUMMARY

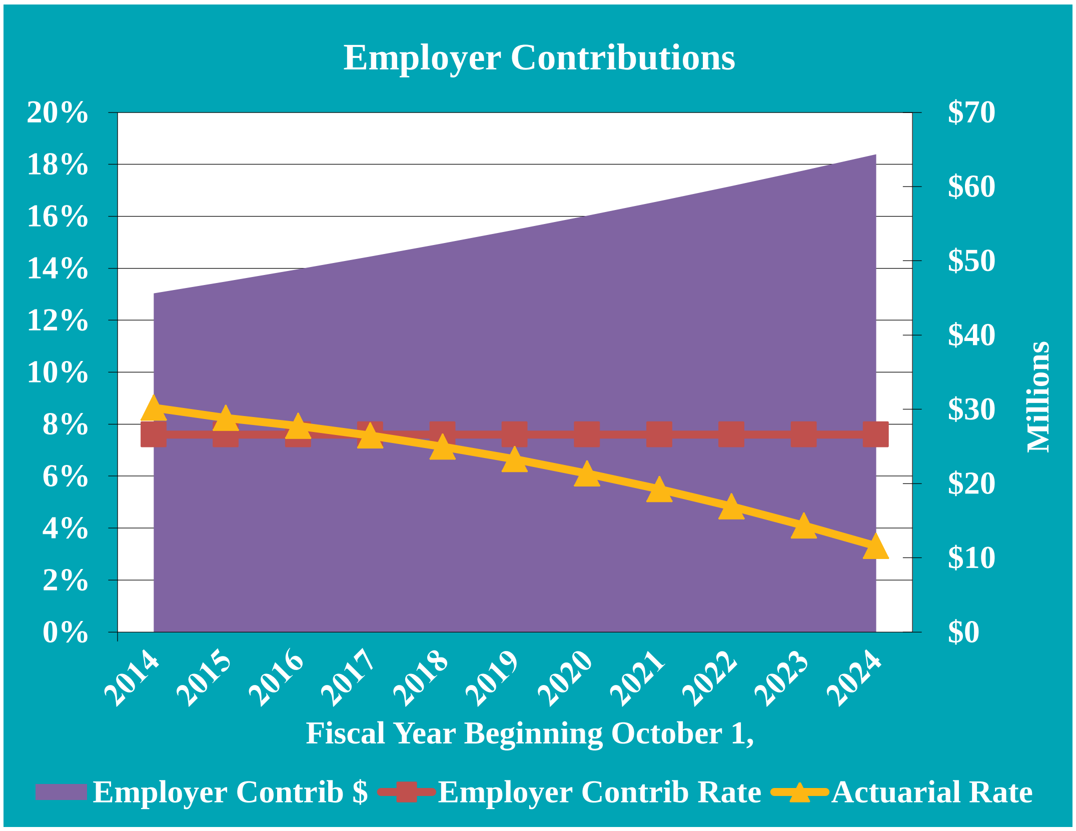
The following chart entitled Assets and Liabilities shows that the current contribution rate of 7.60% is projected to result in a slight increase in the funded status over this period (if all other actuarial assumptions are met, including the 7.50% investment return). The Assets and Liabilities chart shows the projected funding status over the next decade. The Plan is projected to gradually increase from 95% funded to 101% funded over the decade.



## SECTION I
## SUMMARY

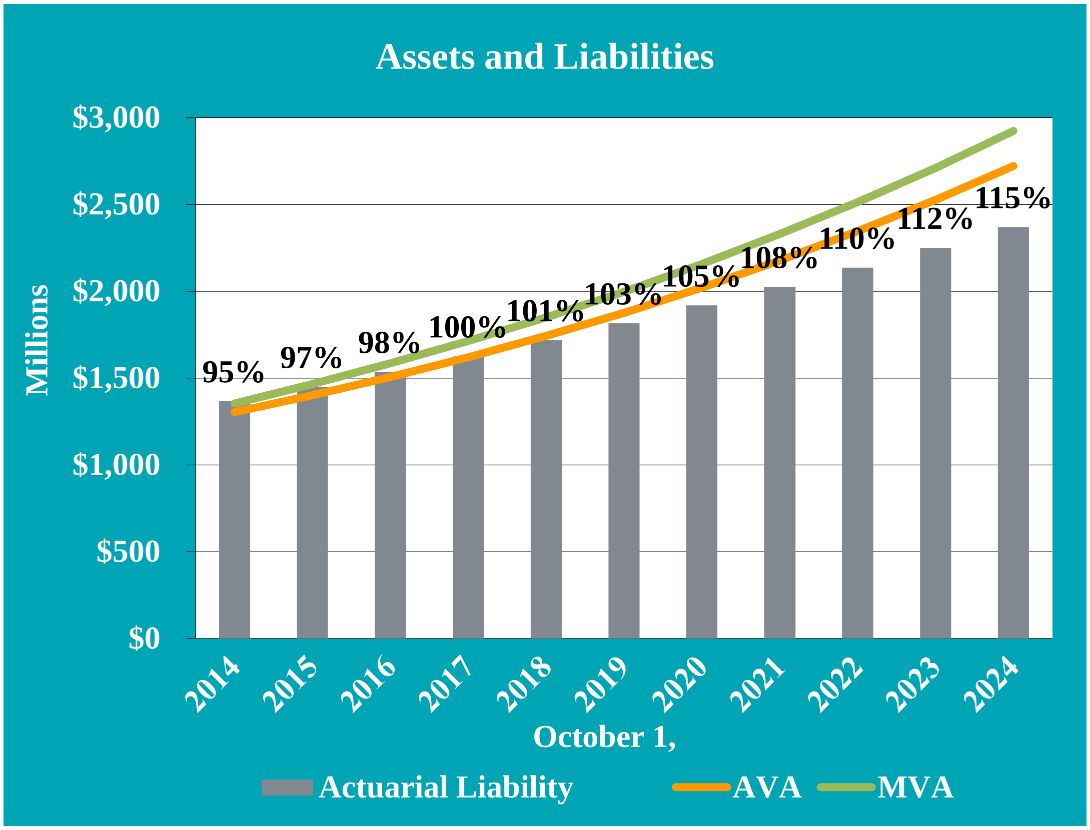
*Projection with Asset Returns of 9.5%*

The future funding of this Plan will be largely driven by the investment earnings. Due to the size of assets, as compared to liabilities, the Plan is in a highly leveraged position. This means that changes in the market returns can have significant effects on the Plan's status. The next two charts show what the coming decade would look like with a 9.5% annual return and employer contributions of 7.6% of payroll each year.



**SECTION I**
**SUMMARY**

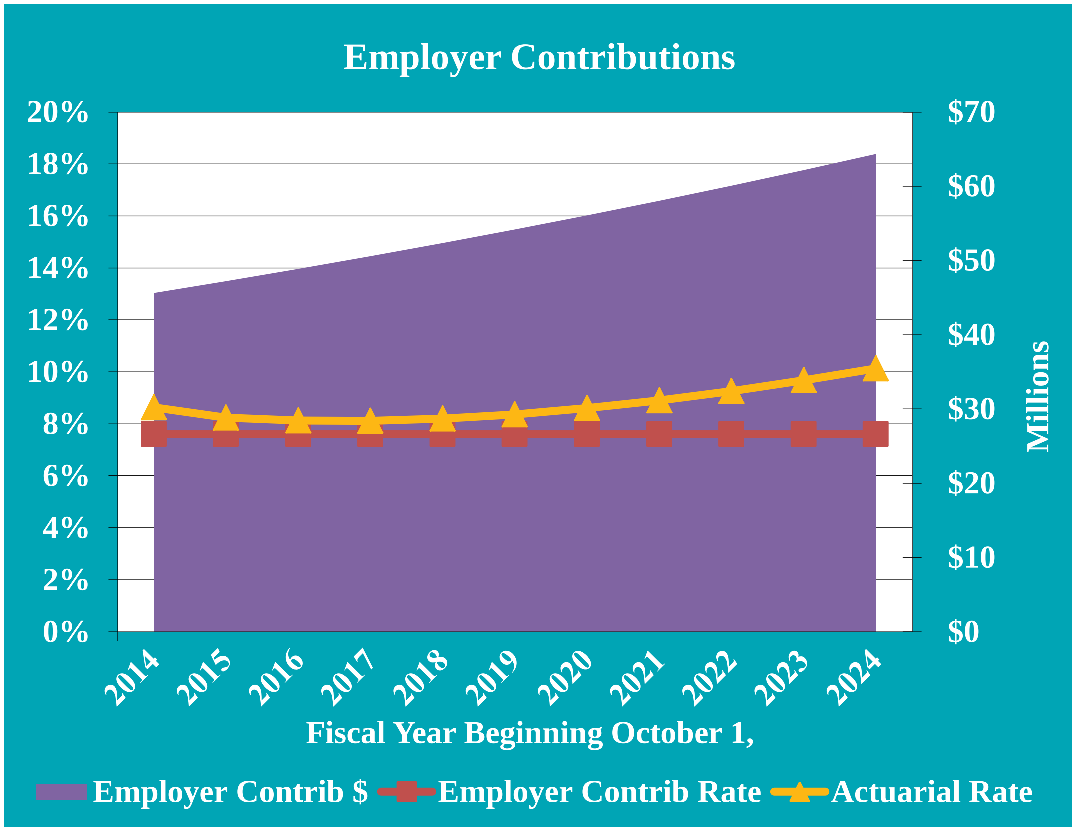
The Plan's funded status, with these assumed investment returns of 9.5% per year, is projected to be fully funded by 2017.



**SECTION I**
**SUMMARY**

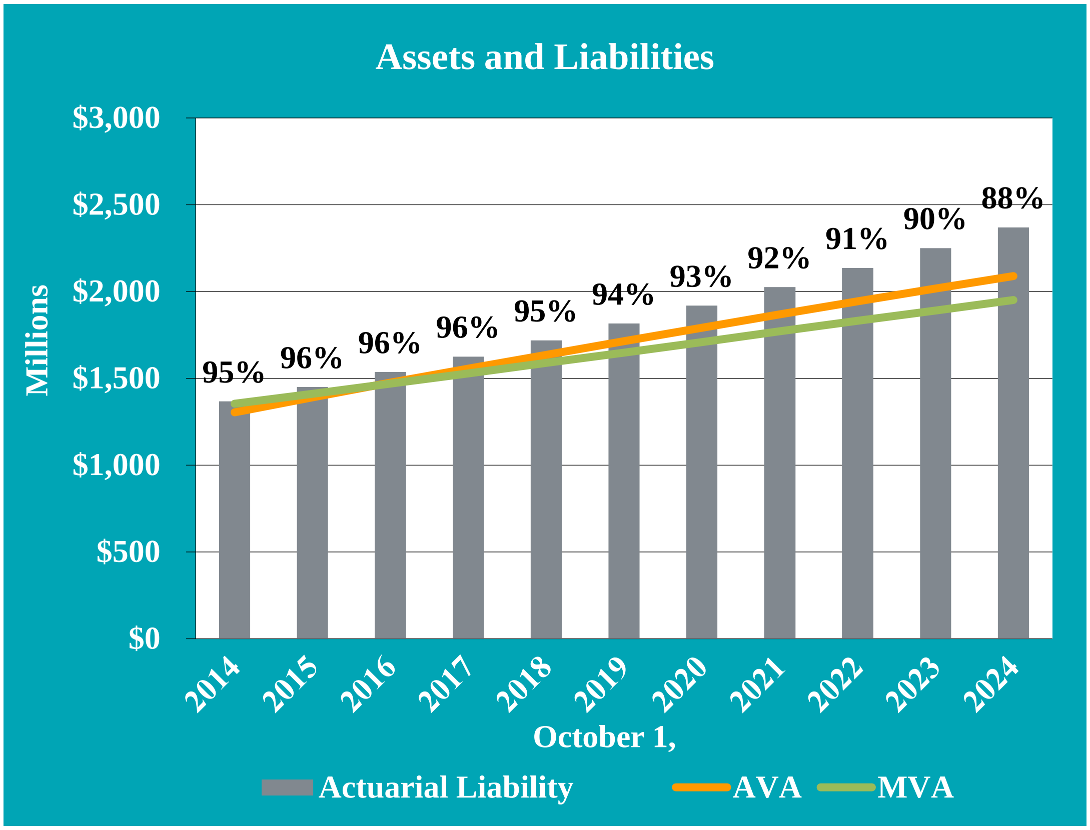
*Projection with Asset Returns of 5.5%*

The next two charts show what the coming decade would look like with a 5.5% annual return. Under this scenario, the current employer contribution rate of 7.6% would not be sufficient to maintain or improve the funded status of the Plan through the end of the decade.



**SECTION I**
**SUMMARY**

The Plan's funded status, with these assumed investment returns of 5.5% per year, is projected to slightly increase and then drop from the current 95% down to around 88% unless contributions are increased or benefits are adjusted.



## SECTION I
## SUMMARY

### Exhibit I-1
### Summary of Principal Results
### ($ in millions)

| | | October 1, 2014 | | October 1, 2013 | | % Change |
|---|---|---|---|---|---|---|
| | **Participant Data** | | | | | |
| (a) | Retired Members and Beneficiaries* | | 7,591 | | 7,298 | 4.0% |
| (b) | Vested Deferred Members | | 2,628 | | 2,606 | 0.8% |
| (c) | Non-Vested Participants Due Account Balance | | 22,395 | | 22,601 | (0.9%) |
| (d) | Active Members | | 17,206 | | 17,624 | (2.4%) |
| (e) | Total Participants [(a) + (b) + (c) + (d)] | | 49,820 | | 50,129 | (0.6%) |
| (f) | Annual Salaries of Active Members | $ | 600.3 | $ | 598.4 | 0.3% |
| (g) | Annual Retirement Allowances for Retired Members and Beneficiaries | $ | 62.3 | $ | 58.6 | 6.3% |
| | **Assets and Liabilities** | | | | | |
| (h) | Present Value of Future Benefits | $ | 1,884.7 | $ | 1,789.4 | 5.3% |
| (i) | Actuarial Liability | $ | 1,366.9 | $ | 1,287.1 | 6.2% |
| (j) | Actuarial Value of Assets | $ | 1,303.5 | $ | 1,197.7 | 8.8% |
| (k) | Unfunded Actuarial Liability [(i) - (j)] | $ | 63.4 | $ | 89.4 | (29.1%) |
| (l) | Funding Ratio on Actuarial Basis [(j) ÷ (i)] | | 95.4% | | 93.1% | 2.3% |
| (m) | Present Value of Accumulated Plan Benefits | $ | 1,228.2 | $ | 1,153.9 | 6.4% |
| (n) | Market Value of Assets | $ | 1,353.4 | $ | 1,211.0 | 11.8% |
| | **Contribution Results** | | | | | |
| (o) | Total Annual Normal Cost with Expenses | $ | 52.6 | $ | 51.6 | 1.9% |
| (p) | Expected Employee Contributions | | (12.0) | | (12.0) | 0.0% |
| (q) | UAL Amortization | | 6.7 | | 9.7 | (30.9%) |
| (r) | Interest to Middle of Year | | 2.1 | | 2.4 | (12.5%) |
| (s) | Actuarial Contribution [(o) + (p) + (q) + (r)] | $ | 49.4 | $ | 51.7 | (4.4%) |
| (t) | As a % of Payroll | | 8.24% | | 8.65% | (0.41%) |

* Includes 62 participants receiving benefits from Ameritas Life Insurance Corporation as of 10/1/2013 and 53 as of 10/1/2014. Cost of living increases granted after 1980 for these 53 participants total $154,392 per year with an Actuarial Liability of $694,799 as of 10/1/2014. The Actuarial Liability for these increases is included above.

## SECTION II
## STATUTORY VALUATION EXHIBITS

### EXHIBIT II-1
### DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

| | | |
|---|---|---|
| 1. | Actuarial Value of Assets as of October 1, 2013 | $ 1,197,652,732 |
| 2. | Amount in (1) with interest to September 30, 2014 | 1,293,464,951 |
| 3. | Employer and Employee Contributions for Plan Year ended September 30, 2014 | 62,325,623 |
| 4. | Interest on Contributions assuming payments made uniformly throughout the year to September 30, 2014 | 2,445,064 |
| 5. | Disbursements from Trust except investment expenses, October 1, 2013 through September 30, 2014 | 64,631,925 |
| 6. | Interest on disbursements made uniformly throughout the year to September 30, 2014 at 8.00% per year | 2,535,542 |
| 7. | Expected Actuarial Value of Assets as of September 30, 2014 = (2) + (3) + (4) - (5) - (6) | $ 1,291,068,171 |
| 8. | Actual Market Value of Assets at September 30, 2014 | $ 1,353,376,178 |
| 9. | Excess of (8) over (7) | $ 62,308,007 |
| 10. | Pro-forma Actuarial Value of Assets at September 30, 2014 = (7) + 20% of (9) | $ 1,303,529,772 |
| 11. | Maximum value = 1.20 x (8) | $ 1,624,051,414 |
| 12. | Minimum value = 0.80 x (8) | $ 1,082,700,942 |
| 13. | Actuarial Value of Assets as of September 30, 2014 = (10), but not more than (11) nor less than (12) | $ 1,303,529,772 |

## SECTION II
## STATUTORY VALUATION EXHIBITS

### EXHIBIT II-2
### EMPLOYER CONTRIBUTION RATE

| | | | |
|---|---|---|---|
| 1. | Actuarial Liability | $ | 1,366,904,122 |
| 2. | Actuarial Value of Assets | | 1,303,529,772 |
| 3. | Unfunded Actuarial Liability [(1) - (2)] | $ | 63,374,350 |
| 4. | Normal Cost plus Administrative Expenses | | 52,578,589 |
| 5. | 15-Year Amortization of Unfunded Actuarial Liability | | 6,678,609 |
| 6. | Estimated Employee Contribution | | 12,005,610 |
| 7. | Interest on (4) and (5) for Half Year * | | 2,181,973 |
| 8. | Net Employer Contribution: (4) + (5) - (6) + (7) | $ | 49,433,561 |
| 9. | Active Member Payroll | $ | 600,280,517 |
| 10. | Employer Contribution as a Percentage of Active Member Payroll: (8) / (9) | | 8.24% |

* Contributions are assumed to be made uniformly throughout the year.

## SECTION II
## STATUTORY VALUATION EXHIBITS

### EXHIBIT II-3
### TEN YEAR PROJECTION OF RETIREES

| Plan Year Ending 9/30 | Current Retirees* | From Deferreds | From Actives | Total Retirees | Annual Benefits** |
|---|---|---|---|---|---|
| 2015 | 7,408 | 279 | 581 | 8,268 | $ 71,806,768 |
| 2016 | 7,216 | 325 | 1,265 | 8,806 | $ 76,273,525 |
| 2017 | 7,019 | 383 | 1,927 | 9,329 | $ 81,138,547 |
| 2018 | 6,814 | 441 | 2,541 | 9,796 | $ 86,289,270 |
| 2019 | 6,606 | 499 | 3,114 | 10,219 | $ 91,547,188 |
| 2020 | 6,394 | 563 | 3,636 | 10,593 | $ 94,454,472 |
| 2021 | 6,178 | 623 | 4,078 | 10,879 | $ 100,575,700 |
| 2022 | 5,958 | 700 | 4,430 | 11,088 | $ 106,726,617 |
| 2023 | 5,735 | 775 | 4,729 | 11,239 | $ 113,089,439 |
| 2024 | 5,510 | 868 | 4,981 | 11,359 | $ 119,528,793 |

* Includes number of participants and their cost of living benefits to be paid from Ameritas Life Insurance Corporation.

** Assumes that the $12.9 million in account balances for the 22,395 non-vested participants due a refund of their employee contributions are paid uniformly over next five years.

The projection above is based on the September 30, 2014 census data provided and does not reflect any employees expected to be hired after that.

## SECTION II
## STATUTORY VALUATION EXHIBITS

### EXHIBIT II-4
### SUMMARY OF CENSUS DATA AS OF OCTOBER 1, 2014

#### A. ACTIVE PARTICIPANTS

| | | | | |
|---|---|---|---|---|
| 1. | Number | | | 17,206 |
| 2. | Total Annual Valuation Payroll (as reported) | | $ | 600,280,517 |
| 3. | Average Age | | | 43.6 |
| 4. | Average Credited Service | | | 7.3 |
| 5. | Average Annual Pay [2. ÷ 1.] | | $ | 34,888 |
| 6. | Average Accumulated Employee Contributions with Interest | | $ | 5,989 |

#### B. INACTIVE PARTICIPANTS

| | | | | |
|---|---|---|---|---|
| 7. | Terminated Vested Participants: | | | |
| | a. | Number | | 2,628 |
| | b. | Total Monthly Benefit | $ | 728,525 |
| | c. | Average Monthly Benefit [7b. ÷ 7a.] | $ | 277 |
| 8. | Currently Retired Participants, Disableds and Beneficiaries: | | | |
| | a. | Number | | 7,538 |
| | b. | Total Monthly Benefit | $ | 5,181,633 |
| | c. | Average Monthly Benefit [8b. ÷ 8a.] | $ | 687 |
| 9. | Participants receiving cost-of-living benefits from Ameritas Life Insurance Corporation: | | | |
| | a. | Number | | 53 |
| | b. | Total Monthly Benefit | $ | 12,866 |
| | c. | Average Monthly Benefit [9b. ÷ 9a.] | $ | 243 |
| 10. | Non-Vested Participants due an Account Balance | | | |
| | a. | Number | | 22,395 |
| | b. | Balance | $ | 12,897,457 |

## SECTION II
## STATUTORY VALUATION EXHIBITS

### EXHIBIT II-5
### DATA RECONCILIATION FROM THE PRIOR TO CURRENT VALUATION*

| | Active Participants | Vested Deferred Members | Disability Retirements | Retirees | Beneficiaries | Total |
|---|---|---|---|---|---|---|
| **October 1, 2013** | 17,624 | 2,606 | 118 | 6,284 | 896 | 27,528 |
| New Hires | 2,922 | N/A | N/A | N/A | N/A | 2,922 |
| Died or Terminated without a Vested Benefit | (2,450) | N/A | N/A | N/A | N/A | (2,450) |
| Vested Termination | (588) | 588 | 0 | 0 | 0 | 0 |
| Died without a Survivor Benefit | N/A | (468) | (5) | (211) | (71) | (755) |
| Died with a Survivor Benefit | (5) | (2) | 0 | (58) | 65 | 0 |
| Rehired Inactives | 53 | (48) | 0 | (5) | 0 | 0 |
| Disablements | (8) | (1) | 9 | 0 | 0 | 0 |
| Retirements | (342) | (103) | (11) | 457 | (1) | 0 |
| Inactives not in Data Last Year | N/A | 56 | 5 | 84 | 35 | 180 |
| **October 1, 2014** | 17,206 | 2,628 | 116 | 6,551 | 924 | 27,425 |

* No reconciliation was performed for non-vested participants due a refund of their account balance.

## SECTION III
## ANNUAL REPORT PRESCRIBED BY P.L. 95-595

**Report for Plan Year Ending**
September 30, 2014

**Exhibit III-1**

**General Information Sheet**

1. Name of Plan: U.S. Army Nonappropriated Fund Employee Retirement Plan

2. Name and address of plan sponsor:

   U.S. Army Community and Family Support Center
   NAF Employee Benefits Office
   P.O. Box 340309
   Fort Sam Houston, Texas 78234

3. Name and phone number of plan administrator (or other responsible plan official):

   Ronald Heuer
   Chief, NAF Personnel Services Division
   (210) 466-1620

4. Type of plan entity: Single employer plan

5. Date plan established: January 1, 1966

6. Information on plan participants at beginning of plan year:

   Participant data was collected as of October 1, 2014

| | |
|---|---|
| Active participants | 17,206 |
| Separated employees entitled to deferred benefits | 2,628 |
| Retired, disabled and beneficiaries | 7,591 |
| Former non-vested participants due an account balance | 22,395 |
| Total Participants | 49,820 |

7. Type of plan: Defined benefit pension plan

8. Administrative cost: See Note 4.

9. During the current plan year, the Plan was not merged into nor consolidated with another plan nor were assets or liabilities transferred to another plan.

10. The Plan is funded through BGI U.S. Debt, John Hancock Mutual Life Insurance Co., Janus Midcap, Adams Street Partners, Inc. (former Brinson Partners, Inc.), Newfleet Mgmt, Ameritas (former Bankers Life of Nebraska), Baille Gifford EAFE, Wells Capital Management Small Cap,

## SECTION III
## ANNUAL REPORT PRESCRIBED BY P.L. 95-595

RREEF America REIT II, UBS - RESA, Artisan International Value, Dodge & Cox International Stock Fund, Lazard Asset Mgmt, T. Rowe Price Large Cap Enhanced, Capital International EMGF, Angelo Gordon Core + Realty, UBS Trumball TPG Value Fund, Prisma Hedge FOF, Blackstone Hedge, BNY Mellon, SSGA Real Assets Non-Lend Fund, SSGA S&P 500 Flagship, and U.S. Army N.A.F. Retirement Trust (SSGA STIF).

11. The October 1, 2014 valuation was performed based on active, retiree and vested terminated data provided to us as of October 1, 2014.

12. The projected unit credit actuarial cost method was used in completing Tables 1 and 2. A summary of the actuarial methods is attached.

13. Actuarial assumptions:

1. Economic:

(1) Rate of return on plan investments: 7.5% per annum.

(2) Ratio of salary expected at normal retirement age (62) to salary for a new entrant at:

| | Men | Women |
|---|---|---|
| Age 25 | 6.35 | 6.35 |
| Age 40 | 3.78 | 3.78 |
| Age 55 | 1.86 | 1.86 |

(3) Inflation Rate (in relation to plan provisions for post-retirement benefit adjustments): 3.0% per annum.

2. Decrements:

(1) Basis of mortality assumptions:

RP-2000 Combined Mortality with generational mortality improvements using Scale AA for active, terminated vested, healthy annuitants, and beneficiaries.

RP-2000 Disabled Mortality with generational mortality improvements using Scale AA for disabled annuitants.

(2) (a) Normal retirement age: 62 and 5 years of service.

(b) Lowest age at which employee may voluntarily retire with full benefits: age 55 with 30 years of service or age 60 with 20 years of service.

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(3) Basis of withdrawal assumptions:
Table based on turnover adjusted to reflect Plan's experience.

A summary of the assumptions and changes made since the prior report is attached.

14. A summary of the Plan provisions and changes made since the prior report is attached.

******

I declare that I have examined this report, including accompanying tables and statements, and to the best of my knowledge and belief it is true, correct and complete.

Signature of Plan Administrator: ________________________________
Ronald Heuer
Chief, NAF Personnel Services Division

Date: ________________________________

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## Exhibit III-2

### Statement of Enrolled Actuary

This report has been prepared pursuant to P.L. 95-595 for the year ending September 30, 2014. To the best of my knowledge, the report is complete and accurate. It should be noted, however, that the asset information shown has not been audited by Cheiron, Inc. In addition, the liabilities shown in this report are from the United States Army Nonappropriated Retirement Plan Valuation Report as of October 1, 2014 as prepared by Cheiron, Inc. In my opinion, the actuarial assumptions appear to be individually reasonable related to the experience of the Plan and to reasonable expectations, and represent my best estimate of anticipated experience under the Plan.

Signature:

Kevin Woodrich, FSA, FCA, EA, MAAA
Enrolled Actuary
#14-7086
Cheiron, Inc.
9115 Harris Corners Parkway, Suite 380
Charlotte, NC 28269

Date: May 19, 2015

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### EXHIBIT III-3
### STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

| | September 30, 2014 | September 30, 2013 |
|---|---|---|
| **Assets** | | |
| Investments, at fair value | | |
| Deposit administration contracts, at contract value (Notes 1 and 2) | | |
| John Hancock Mutual Life Insurance Co. | $ 10,050,370 | $ 9,556,167 |
| BGI U.S. Debt | 43,294,008 | 41,762,075 |
| Janus Midcap | 80,467,960 | 71,337,934 |
| Ameritas (Bankers Life of Nebraska) | 103,943 | 98,348 |
| Adams Street Partners, Inc (formerly Brinson) | 140,498,091 | 106,300,992 |
| SSGA International Alpha | 0 | 98,214,443 |
| Wells Capital Management Small Cap | 68,332,967 | 76,043,578 |
| GMG Seneca | 0 | 46,035,630 |
| RREEF America REIT II | 37,156,473 | 35,235,066 |
| UBS - RESA | 46,202,904 | 43,328,916 |
| Artisan International Value | 85,862,186 | 79,508,423 |
| Dodge & Cox Intl. Stock Fund | 84,884,546 | 74,995,981 |
| NYLIM - Large Cap Enhanced Index | 0 | 13,538 |
| T. Rowe Price Lg Cap Enhanced | 196,812,200 | 182,314,117 |
| Capital International EMGF | 36,447,426 | 36,241,999 |
| Angelo Gordon Core + Realty | 7,950,666 | 6,051,127 |
| UBS Trumball TPG Value Fund | 29,611,780 | 25,737,335 |
| Prisma Hedge FOF | 11,690,692 | 10,876,410 |
| Blackstone Hedge | 47,715,089 | 44,188,640 |
| BNY Mellon | 26,735,429 | 26,195,475 |
| SSGA Real Assets Non-Lend Fund | 26,246,117 | 25,423,533 |
| SSGA S&P 500 Flagship | 196,954,743 | 164,469,941 |
| Newfleet Mgmt | 63,243,793 | 0 |
| Baille Gifford EAFE | 44,098,959 | 0 |
| Lazard Asset Mgmt | 48,990,130 | 0 |
| U.S. Army N.A.F. Ret. Trust (SSGA STIF) | 5,441,777 | 1,573,883 |
| Total Investments | $ 1,338,792,249 | $ 1,205,503,551 |
| Receivables | | |
| Employer and employee contributions | $ 3,010,326 | $ 3,742,776 |
| Interest Receivable | 5,103 | 2,553 |
| Accounts Receivable | 549,794 | 736,611 |
| Total | $ 3,565,223 | $ 4,481,940 |
| Cash on deposit with U.S. Army Banking and Investment Fund (Note 3) | $ 12,827,459 | $ 2,714,996 |
| Total Assets | $ 1,355,184,931 | $ 1,212,700,487 |
| Liabilities | | |
| Accounts payable and accrued liabilities | 1,808,753 | 1,704,972 |
| Net Assets Available for Benefits | $ 1,353,376,178 | $ 1,210,995,515 |

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### EXHIBIT III-4
### STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

| | Fiscal Year ending September 30, 2014 | Fiscal Year ending September 30, 2013 |
|---|---|---|
| 1. Net assets available for benefits at beginning of Plan year | $ 1,210,995,515 | $ 1,032,871,272 |
| 2. Investment Income: | | |
| (a) Net appreciation (depreciation) in fair value of investments | $ 123,493,223 | $ 153,340,812 |
| (b) Interest | 12,770,538 | 11,871,676 |
| (c) Other income | 14,492,927 | 12,440,761 |
| (d) Less: Investment expenses | 6,069,723 | 4,040,831 |
| (e) Total | $ 144,686,965 | $ 173,612,418 |
| 3. Contributions: (Note 5) | | |
| (a) Employer | $ 51,423,970 | $ 54,177,103 |
| (b) Employee | 10,901,653 | 11,136,548 |
| (c) Total | $ 62,325,623 | $ 65,313,651 |
| 4. Total additions (2) + (3) | $ 207,012,588 | $ 238,926,069 |
| 5. Benefits paid directly to participants | | |
| (a) Refunds | $ 1,994,932 | $ 2,789,189 |
| (b) Annuities | 60,757,446 | 56,185,096 |
| (c) Total | $ 62,752,378 | $ 58,974,285 |
| 6. Administrative Expenses | $ 1,879,547 | $ 1,827,541 |
| 7. Total deductions (5) + (6) | $ 64,631,925 | $ 60,801,826 |
| 8. Net additions (deductions): (4) - (7) | $ 142,380,663 | $ 178,124,243 |
| 9. Net assets available for benefits at end of Plan year: (1) + (8) | $ 1,353,376,178 | $ 1,210,995,515 |

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## EXHIBIT III-5
## STATEMENT OF PRESENT VALUE OF ACCUMULATED PLAN BENEFITS

| | October 1, 2014 | October 1, 2013 |
|---|---|---|
| Present Value of Accumulated Plan Benefits | | |
| Vested Benefits | | |
| Participants Currently Receiving Payment* | $ 694,051,814 | $ 637,160,063 |
| Other Participants | 494,353,314 | 468,470,505 |
| Total | $ 1,188,405,128 | $ 1,105,630,568 |
| Non-vested Benefits | $ 39,826,313 | $ 48,237,648 |
| Total Present Value of Accumulated Plan Benefits | $ 1,228,231,441 | $ 1,153,868,216 |
| Interest Rate Used | 7.5% | 8.0% |

* Includes remaining liability under the Plan for participants receiving benefits from Ameritas Life Insurance Corporation.

NOTE: The active employees' accumulated contributions with interest were $103,049,688 and $98,615,011 as of October 1, 2014 and October 1, 2013 respectively.

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### EXHIBIT III-6
### STATEMENT OF CHANGES IN PRESENT VALUE OF ACCUMULATED PLAN BENEFITS

| | | Fiscal Year ending September 30, 2014 | Fiscal Year ending September 30, 2013 |
|---|---|---|---|
| 1. | Present Value of Accumulated Plan Benefits at beginning of Plan year | $ 1,153,868,216 | $ 1,089,038,336 |
| 2. | Increase (decrease) during the year attributable to: | | |
| | (a) Benefits accumulated and actuarial (gain) or loss | $ 48,110,049 | $ 23,931,175 |
| | (b) Interest due to decrease in discount period | 89,847,651 | 84,809,477 |
| | (c) Plan amendment(s) | 0 | 0 |
| | (d) Changes in actuarial assumptions | (842,097) | 15,063,513 |
| | (e) Benefit Payments | (62,752,378) | (58,974,285) |
| 3. | Net increase (decrease): | $ 74,363,225 | $ 64,829,880 |
| 4. | Present value of Accumulated Plan Benefits at end of Plan year | $ 1,228,231,441 | $ 1,153,868,216 |

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### EXHIBIT III-7
### TABLE 1
### ACTUARIAL STATUS INFORMATION

| | | | October 1, 2014 | October 1, 2013 |
|---|---|---|---|---|
| 1. | Present Value of Future Benefits: | | | |
| | (a) | Annuitants now on roll * | $ 694,051,814 | $ 637,160,063 |
| | (b) | Separated employees | 52,822,698 | 48,027,806 |
| | (c) | Participants due an account balance | 12,897,457 | 11,730,741 |
| | (d) | Active participants | 1,124,885,511 | 1,092,452,299 |
| | (e) | Total | $ 1,884,657,480 | $ 1,789,370,909 |
| 2. | Less: Present Value of Future Normal Cost Contributions | | 517,753,358 | 502,301,630 |
| 3. | Actuarial Liability [(1e) - (2)] | | $ 1,366,904,122 | $ 1,287,069,279 |
| 4. | Less: Actuarial Value of Assets | | 1,303,529,772 | 1,197,652,732 |
| 5. | Unfunded Actuarial Liability [(3) - (4)] | | $ 63,374,350 | $ 89,416,547 |
| 6. | Normal cost as a percentage of covered payroll (mid-year) ** | | | |
| | (a) | Employee | 2.00% | 2.00% |
| | (b) | Employer | 7.08% | 6.97% |
| | (c) | Total | 9.08% | 8.97% |
| 7. | Ratio of Assets in fund to Present Value of Future Benefits for Annuitants now on Roll | | | |
| | (a) | Line 1(a) plus accumulated employee contributions | $ 797,101,502 | $ 735,775,074 |
| | (b) | Actuarial Value of Assets divided by (a) | 1.64 | 1.63 |
| | (c) | Ratio in (b) last year | 1.63 | 1.64 |
| | (d) | Ratio in (b) two years ago | 1.64 | 1.62 |

* Includes remaining liability under the Plan for participants receiving benefits from Ameritas Life Insuranc Corporation.

** Includes assumed administrative expenses.

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### EXHIBIT III-8
### TABLE 2

### COMPARISON OF ACTUARIAL FUNDING WITH ACTUAL CONTRIBUTIONS
(in dollars)

| (1) Plan Year | (2) Total Normal Cost* | (3) 40-Year Amortization of Unfunded Liability* | (4) Total (Col. 2 plus Col. 3) | (5) Actual Contributions To Plan From All Sources | (6) Difference (Col. 5 less Col. 4) | (7) Col. 5 divided by Col.4 |
|---|---|---|---|---|---|---|
| 2014-15 | $ 54,514,642 | $ 4,853,237 | $ 59,367,879 | N/A | N/A | N/A |
| 2013-14 | 53,673,556 | 7,215,422 | 60,888,978 | $ 62,325,623 | $ 1,436,645 | 1.02 |
| 2012-13 | 53,829,936 | 10,217,157 | 64,047,093 | 65,313,651 | 1,266,558 | 1.02 |
| 2011-12 | 54,141,214 | 10,635,437 | 64,776,651 | 59,846,992 | (4,929,659) | 0.92 |
| 2010-11 | 54,736,827 | 8,457,840 | 63,194,667 | 64,449,655 | 1,254,988 | 1.02 |
| 2009-10 | 50,902,344 | 6,495,113 | 57,397,458 | 59,150,588 | 1,753,130 | 1.03 |
| 2008-09 | 45,326,221 | 1,789,591 | 47,115,812 | 53,667,209 | 6,551,397 | 1.14 |
| 2007-08 | 40,733,684 | (2,030,452) | 38,703,232 | 47,032,806 | 8,329,574 | 1.22 |
| 2006-07 | 38,457,296 | (711,664) | 37,745,632 | 41,621,364 | 3,875,732 | 1.10 |
| 2005-06 | 35,387,224 | (100,202) | 35,287,022 | 39,596,220 | 4,309,197 | 1.12 |
| 2004-05 | 31,724,981 | 1,209,066 | 32,934,047 | 35,435,693 | 2,501,646 | 1.08 |
| 2003-04 | 27,016,602 | (752,297) | 26,264,305 | 30,115,404 | 3,851,099 | 1.15 |
| 2002-03 | 20,651,255 | (971,529) | 19,679,726 | 24,486,375 | 4,806,649 | 1.24 |
| 2001-02 | 19,120,495 | (3,961,885) | 15,158,610 | 22,674,448 | 7,515,838 | 1.50 |
| 2000-01 | 17,889,965 | (6,198,677) | 11,691,288 | 19,171,038 | 7,479,750 | 1.64 |
| 1999-00 | 17,747,969 | (3,094,083) | 14,653,886 | 17,114,504 | 2,460,618 | 1.17 |
| 1998-99 | 17,334,358 | (2,096,155) | 15,238,203 | 15,782,816 | 544,613 | 1.04 |

* Amounts as of mid-year. Beginning in 2005, $1.4 mil added as administrative expense assumption. Beginning in 2014, $1.8 mil added as administrative expense assumption.

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### EXHIBIT III-8 cont.
### TABLE 2a

**COMPARISON OF ACTUARIAL FUNDING WITH ACTUAL CONTRIBUTIONS**
**(as percentage of estimated active member payroll for the year)**

| (1)<br>Plan Year | (2)<br>Total Normal Cost* | (3)<br>40-Year Amortization of Unfunded Liability* | (4)<br>Total (Col. 2 plus Col. 3) | (5)<br>Actual Contributions To Plan From All Sources | (6)<br>Difference (Col. 5 less Col. 4) |
|---|---|---|---|---|---|
| 2014-15 | 9.08% | 0.81% | 9.89% | N/A | N/A |
| 2013-14 | 8.97 | 1.21 | 10.18 | 10.42% | 0.24% |
| 2012-13 | 8.41 | 1.60 | 10.01 | 10.20 | 0.19 |
| 2011-12 | 8.52 | 1.67 | 10.19 | 9.41 | (0.78) |
| 2010-11 | 8.40 | 1.30 | 9.70 | 9.89 | 0.19 |
| 2009-10 | 8.42 | 1.07 | 9.49 | 9.78 | 0.29 |
| 2008-09 | 8.47 | 0.33 | 8.80 | 10.03 | 1.23 |
| 2007-08 | 8.60 | (0.43) | 8.17 | 9.93 | 1.76 |
| 2006-07 | 8.46 | (0.16) | 8.30 | 9.16 | 0.86 |
| 2005-06 | 8.52 | (0.02) | 8.50 | 9.54 | 1.04 |
| 2004-05 | 8.26 | 0.31 | 8.57 | 9.23 | 0.66 |
| 2003-04 | 8.37 | (0.23) | 8.14 | 9.33 | 1.19 |
| 2002-03 | 7.58 | (0.36) | 7.22 | 8.99 | 1.77 |
| 2001-02 | 8.04 | (1.67) | 6.37 | 9.53 | 3.16 |
| 2000-01 | 8.42 | (2.92) | 5.50 | 9.02 | 3.52 |
| 1999-00 | 8.73 | (1.52) | 7.20 | 8.41 | 1.21 |
| 1998-99 | 9.06 | (1.10) | 7.96 | 8.25 | 0.29 |

* Amounts as of mid-year. Beginning in 2005, $1.4 mil added as administrative expense assumption. Beginning in 2014, $1.8 mil added as administrative expense assumption.

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### Exhibit III-8 (continued)

### Table 3-3a

### Past and Projected Flow of Plan Assets

The Market Value of Assets over the last fifteen years is shown on page 3 of this valuation report. Furthermore, the historical cash flows during that period are shown on page 5.

The table on the next page projects the Plan's expected contributions (both employer and employee), benefit payments, and administrative expenses over the next ten years. The expected employer contributions assume that the employers will continue to contribute a fixed 7.60% of pay and do not reflect the amount based on the actuarially determined contribution rate. Expected benefit payments are projected for the closed group valued as of October 1, 2014. Projecting any further than ten years using a closed group would not yield reliable projections due to the omission of new hires. Administrative expenses are assumed to increase by 3.00% a year.

The projections reflect that all the assumptions, including an investment return of 7.5% per year, are realized. Future projections may differ significantly from the current valuation report presented in this report due to such factors as the following: plan experience differing from that anticipated by the assumptions; changes in assumptions; and changes in plan provisions or applicable law.

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### EXHIBIT III-9
### TEN-YEAR PROJECTION OF CASH FLOWS

| Plan Year Ending 9/30 | Market Value of Assets (BOY) | Estimated Employer Contributions | Estimated Employee Contributions | Estimated Benefit Payments* | Estimated Administrative Expenses | Market Value of Assets (EOY) |
|---|---|---|---|---|---|---|
| 2015 | $ 1,353,376,178 | $ 45,621,319 | $ 12,005,610 | $ 71,806,768 | $ 1,800,000 | $ 1,438,311,141 |
| 2016 | 1,438,311,141 | 47,218,065 | 12,425,806 | 76,273,525 | 1,854,000 | 1,527,020,216 |
| 2017 | 1,527,020,216 | 48,870,697 | 12,860,709 | 81,138,547 | 1,909,620 | 1,619,445,044 |
| 2018 | 1,619,445,044 | 50,581,171 | 13,310,834 | 86,289,270 | 1,966,909 | 1,715,642,109 |
| 2019 | 1,715,642,109 | 52,351,512 | 13,776,713 | 91,547,188 | 2,025,916 | 1,815,859,811 |
| 2020 | 1,815,859,811 | 54,183,815 | 14,258,898 | 94,454,472 | 2,086,693 | 1,922,916,202 |
| 2021 | 1,922,916,202 | 56,080,249 | 14,757,959 | 100,575,700 | 2,149,294 | 2,034,073,994 |
| 2022 | 2,034,073,994 | 58,043,058 | 15,274,488 | 106,726,617 | 2,213,773 | 2,149,694,992 |
| 2023 | 2,149,694,992 | 60,074,565 | 15,809,095 | 113,089,439 | 2,280,186 | 2,269,982,197 |
| 2024 | 2,269,982,197 | 62,177,175 | 16,362,413 | 119,528,793 | 2,348,592 | 2,395,297,277 |

* Assumes that the $12.9 million in account balances for the 22,395 non-vested participants due a refund of their employee contributions are paid uniformly over next five years.

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**Exhibit III-9**

## NOTE 1 – VALUATION OF INVESTMENTS

Investments are stated at market value. The Plan's deposits with insurance carriers are valued at contract value. Contract value represents contributions made under the contract, plus interest income, plus realized security gains net of losses, plus unrealized security gains net of losses, less transfers of funds back to the U.S. Army Central Retirement Fund (ACRF), less funds used to meet ACRF obligations, less administrative expenses.

## NOTE 2 – CONTRACTS WITH INSURANCE COMPANIES AND INVESTMENT MANAGEMENT AGREEMENT

The Plan has deposit administration contracts with two insurance companies as described below:

*(a)* *John Hancock Mutual Life Insurance Company*

The John Hancock Mutual Life Insurance Company (John Hancock) serves as the paying service for all participants receiving benefits since the termination agreement with Ameritas (formerly Bankers Life of Nebraska).

John Hancock also administered funds totaling $10,050,370 under the following contract at September 30, 2014.

Type: General account (primarily long-term bonds)
Yield: Based upon overall fund performance
Term: Cancellable at any time
Amount: $10,050,370 at September 30, 2014.

*(b)* *Ameritas (Formerly Bankers Life of Nebraska)*

On March 1, 1983, the Plan terminated its deposit administration contract with Ameritas. Under the terms of the termination agreement Ameritas paid the Plan $5,179,098 on September 1, 1987.

The Plan's only future obligation with respect to Ameritas is to pay the annual cost of living adjustments for the retirees for whom annuity contracts were purchased in 1983 when the agreement with Ameritas was terminated. The amount held on deposit with Ameritas at September 30, 2014 was $103,943.

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*Investment Management Agreement*

The Plan also has investment management agreements with various companies. The agreements provide that the companies have sole responsibility for investing the funds under their management within certain pre-described guidelines, and those earnings on the funds are based solely on the performance of the investments with a performance goal expressed as a total rate of return as defined in the agreement. The fair value of investments under management agreements at September 30, 2014 was:

| | |
|---|---|
| BGI U.S. Debt | $ 43,294,008 |
| Janus Midcap | 80,467,960 |
| Adams Street Partners, Inc. (formerly Brinson Partners, Inc.) | 140,498,091 |
| Newfleet Mgmt | 63,243,793 |
| Wells Capital Management Small Cap | 68,332,967 |
| Baille Gifford EAFE | 44,098,959 |
| RREEF America REIT II | 37,156,473 |
| UBS - RESA | 46,202,904 |
| Artisan International Value | 85,862,186 |
| Dodge & Cox Intl. Stock Fund | 84,884,546 |
| Lazard Asset Mgmt | 48,990,130 |
| T. Rowe Price Lg Cap Enhanced | 196,812,200 |
| Capital International EMGF | 36,447,426 |
| Angelo Gordon Core + Realty | 7,950,666 |
| UBS Trumball TPG Value Fund | 29,611,780 |
| Prisma Hedge FOF | 11,690,692 |
| Blackstone Hedge | 47,715,089 |
| BNY Mellon | 26,735,429 |
| SSGA Real Assets Non-Lend Fund | 26,246,117 |
| SSGA S&P 500 Flagship | 196,954,743 |
| U.S. Army N.A.F. Ret. Trust (SSGA STIF) | 5,441,777 |

## NOTE 3 – CASH WITH ARMY BANKING AND INVESTMENT FUND

The Plan had $12,827,459 invested in the United States Army Banking and Investment Fund (ABIF) at September 30, 2014. The ABIF acts as a pooling agent for all Army Nonappropriated activities and invests principally in U.S. Treasury securities, U.S. government agency securities, and certificates of deposit. The rate of interest paid to depositors is determined periodically by ABIF management.

## NOTE 4 – RELATED PARTY TRANSACTION

Appropriated funds of the United States Army provide certain general administrative support, including office space, communication and certain supplies to the U.S. Army Command which administers the Plan. The value of some of these contributed series and supplies is not currently available and thus, is not reflected in the accompanying financial statements.

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The Plan, the United States Army Medical/Life Fund (AMLF), and the 401(k) Plan share common offices and administrative personnel. Common expenses are paid by the Plan and the AMLF and 401(k) Plan allocated portions are reimbursed to the Plan. The balance due to the Retirement Plan as of September 30, 2014 for expenses allocated to the Army Medical/Life Fund and the 401(k) Saving Plan is $894,581 and $313,581, respectively.

The NAF Financial Services deducted employer and employee contributions from the various payroll cycles and remitted the funds to the Plan at a cost of $1,001 in the year ended September 30, 2014. The United States Army Morale Welfare and Recreation Fund charged the ACRF $171,828 for certain allocated administrative expenses in the year ended September 30, 2014.

### NOTE 5 – CONTRIBUTIONS

As a condition of participation, employees are required to contribute 2% of their salary to the Plan. Prior to January 1, 1991, employees were required to contribute 3% of their salary.

Effective January 1, 2001, new hires, re-hires, and newly eligibles may elect to stop contributing to the Plan after six months. The employee's past contribution will be refunded upon termination only if the employee elects a refund in lieu of future retirement benefits when vested.

Although they have not expressed any intention to do so, the United States Army Nonappropriated Fund has the right under the Plan to discontinue their contributions at any time and to terminate the Plan.

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**Summary of Methods and Assumptions as of October 1, 2014**

# A. Actuarial Methods

**Exhibit III-10**

1. Calculation of Normal Cost and Actuarial Liability: The actuarial method used to determine the normal cost and actuarial liability was the projected unit credit actuarial cost method described below.

   Projected Unit Credit Actuarial Cost Method

   The objective under this method is to allocate the total pension benefit to which each participant is expected to become entitled at retirement to the participant's past and future service. The allocation is accomplished by applying the Plan's accrual formula to projected final salary at retirement.

   An Actuarial Liability is calculated at the valuation date as the present value of benefits allocated to service prior to that date.

   The Unfunded Actuarial Liability at the valuation date is the excess of the Actuarial Liability over the assets of the Plan.

   The Normal Cost is the present value of those benefits which are expected to be allocated to service during the year beginning on the valuation date.

   **Under this method, differences between the actual experience and that assumed in the determination of costs and liabilities will emerge as adjustments in the Unfunded Liability, subject to amortization.**

2. Calculation of Actuarial Value of Assets: Market Value of Assets is the amount certified by outside auditors as available net assets. This includes funds on deposit with insurance companies, funds on deposit with the U.S. Army Banking and Investment Fund, cash and accrued items.

   As of October 1, 1997, the Actuarial Value of Assets was set equal to the Market Value of Assets. For each subsequent year, the Actuarial Value of Assets is calculated as follows:

   (a) The prior year's Actuarial Value of Assets is

   - Increased by actual contributions, interest at the assumed rate of return on prior year's actuarial value of assets for a full year and interest at assumed rate of return on contributions for one-half year.

   - Decreased by actual benefit payments, expenses and other payments and interest at assumed rate of return on these payments for one-half year.

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(b) The amount from (a) above is the expected value.

(c) 20% of the difference between Market Value and expected value is added to "expected" value.

(d) The result from (c) is the Actuarial Value of Assets adjusted, if necessary, to be not less than 20% below and not more than 20% above the Market Value of Assets.

3. <u>Calculation of the Actuarial Employer Contribution Rate:</u> The method for determining the actuarial employer contribution rate is as follows:

(a) The Normal Cost as described on the previous page plus assumed administrative expenses; *plus*

(b) A level dollar amount such that the Unfunded Actuarial Liability would be paid off in 15 years; *less*

(c) Estimated employee contributions of 2% of payroll.

The amount calculated is adjusted with interest to the middle of the year and then divided by valuation earnings to convert to a percent of pay.

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**Summary of Methods and Assumptions as of October 1, 2014**

# B. Actuarial Assumptions

**Exhibit III-10 (continued)**

1. Investment Return: 7.5%, net of investment expenses

2. Annual Rate of General Wage Increase: 3.5%

3. Annual Rate of Merit/Seniority Wage Increase (in addition to 2., applied multiplicatively):
   See Rates in Exhibit A

4. Social Security Wage Base Increase: 3.5%

5. Mortality:

   RP-2000 Combined Mortality with generational mortality improvements using Scale AA for actives, terminated vesteds, healthy annuitants and beneficiaries.

   RP-2000 Disabled Mortality with generational mortality improvements using Scale AA for disabled annuitants.

6. Termination: Sample rates set forth in Exhibit A.

7. Disability: Rates from disability set forth in Exhibit B.

8. Retirement Age: See Exhibit B.

9. Form of payment and proportion of participants with eligible beneficiaries for survivor:

   Participants are assumed to elect the Normal Benefit. 88% of participants are assumed to be married with wives 3-years younger than their husbands. For current in-pay participants, actual spouse date of birth is used if available as well as actual form of payment elected.

10. Administrative Expenses:
    $1,800,000 assumed payable as of the middle of the year.

11. Noncontributing active participants:
    Non-vested participants entitled to a refund of the employee contributions are included in the valuation and are assumed to be paid out within 5 years. Vested participants are assumed to remain in service but continue in a noncontributory status.

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12. Covered payroll:
    Gross annual earnings for the prior plan year ending on the valuation date, increased by the salary assumption to reflect estimated payroll for the year following the valuation date.

13. Maximum benefit:
    The maximum benefit payable under IRC Section 415, effective at valuation date ($210,000 for 2014 and 2015) increased by 3% per year thereafter.

14. Maximum pensionable pay:
    IRC Section 401(a)(17) limit effective at valuation date ($260,000 for 2014 and $265,000 for 2015) increased 3% per year thereafter.

15. Post-retirement cost of living adjustments:
    3.0% per year.

16. Assumption for inactive participants due an account balance:
    100% are assumed to still be due a refund of their account balances.

17. Changes since prior year:
    In accordance with the most recent experience study completed concurrent with this actuarial valuation, the following assumptions were updated:

    *Economic Assumptions*
    - The assumed investment return was lowered from 8.0% to 7.5% per year,
    - The assumed rate of general wage increase was lowered from 4.0% to 3.5% per year,
    - The Social Security wage base increase assumption was lowered from 4.0% to 3.5% per year,
    - The assumed post-retirement cost of living adjustments was lowered from 3.5% to 3.0%, and
    - The assumed increase in the IRC Section 415 and 401(a)(17) limits was lowered from 3.5% to 3.0%.

    *Demographic Assumptions*
    - Several demographic assumptions, including the Annual Merit/Seniority Wage Increases, Mortality, Termination, Disability, and Retirement rates were each updated to better reflect recent Plan experience. The prior assumption for each of these can be seen in the October 1, 2013 actuarial valuation report.

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## Exhibit A

| | | **Termination** *Number of terminations per 1,000 members* | |
|---|---|---|---|
| **Service** | **Merit/Seniority Wage Increase** | **Male** | **Female** |
| 0 | 9.00% | 250.0 | 300.0 |
| 1 | 8.00% | 200.0 | 250.0 |
| 2 | 6.50% | 150.0 | 200.0 |
| 3 | 5.25% | 125.0 | 150.0 |
| 4 | 4.25% | 125.0 | 135.0 |
| 5 | 3.50% | 100.0 | 120.0 |
| 6 | 2.50% | 75.0 | 90.8 |
| 7 | 2.25% | 50.0 | 82.5 |
| 8 | 2.13% | 50.0 | 75.0 |
| 9 | 1.99% | 50.0 | 62.5 |
| 10 | 1.86% | 50.0 | 50.0 |
| 11 | 1.72% | 47.5 | 47.5 |
| 12 | 1.58% | 45.0 | 45.0 |
| 13 | 1.45% | 42.5 | 42.5 |
| 14 | 1.31% | 40.0 | 40.0 |
| 15 | 1.17% | 37.5 | 40.0 |
| 16 | 1.04% | 35.0 | 40.0 |
| 17 | 0.90% | 32.5 | 40.0 |
| 18 | 0.76% | 30.0 | 40.0 |
| 19 | 0.63% | 30.0 | 40.0 |
| 20 | 0.49% | 30.0 | 40.0 |
| 21 | 0.35% | 30.0 | 40.0 |
| 22 | 0.22% | 30.0 | 40.0 |
| 23 | 0.08% | 30.0 | 40.0 |
| 24 | 0.00% | 30.0 | 40.0 |
| 25+ | 0.00% | 30.0 | 40.0 |

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## Exhibit B

**Retirement Rates**[1]
*Number of retirements per 1,000 members*

| Age | Reduced | Unreduced |
|---|---|---|
| 50 - 51 | 50 | N/A |
| 52 – 54 | 75 | N/A |
| 55 | 75 | 250 |
| 56 - 58 | 75 | 100 |
| 59 | 100 | 100 |
| 60 | 100 | 200 |
| 61 | 150 | 200 |
| 62-69 | N/A | 200 |
| 70+ | N/A | 1,000 |

**Disability**
*Number of Disablements per 1,000 members (sample rates)*

| Age | Rate |
|---|---|
| <35 | 0.14 |
| 35 | 0.16 |
| 40 | 0.38 |
| 45 | 0.80 |
| 50 | 1.39 |
| 55 | 2.38 |
| 60 | 4.31 |
| 62+ | 0.00 |

100% of terminated vested participants are assumed to retire at age 62.

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## SUMMARY OF PLAN PROVISION AS OF OCTOBER 1, 2014

### Exhibit III-11

1. <u>Effective Date of Plan:</u>

   January 1, 1966. Most recent amendment and reinstatement as of January 1, 2008.

2. <u>Employees Eligible for Participation:</u>

   All employees of covered U.S. Army-NAF activities working at least 20 hours per week are eligible to become Participants on their date of employment. Effective January 1, 2001, new hires, re-hires, and newly eligibles are required to participate in the Plan for the first six months. Employee contributions are required for participation.

3. <u>Definitions:</u>

   (a) <u>Earnings</u>: Gross annual compensation as reported on Form W-2, plus the Participant's pre-tax contributions to the Employer's 401(k) plan or for health benefits, capped by the $260,000 limit as indexed under the Code.

   (b) <u>Final Average Earnings:</u> The average of the highest 36 consecutive months of Earnings.

   (c) <u>Credited Service:</u> All service including unused sick leave from date of employment to retirement, death or termination, except that service on and after April 1, 1981, is counted only if the employee makes contributions to the Plan.

   (d) <u>Covered Compensation:</u> The amount specified in Table 1 of Attachment 1, as amended from time to time, of Internal Revenue Service Notice 89-70 for the plan year in which the Participant attains his Social Security Retirement Age.

4. <u>Retirement Dates:</u>

   (a) <u>Normal Retirement Date:</u> The first day of the month following the later of Participant's $62^{nd}$ birthday and completion of 5 years of Credited Service.

   (b) <u>Early Retirement Date:</u> A Participant may retire on the first day of a month before age 62 provided:

      (i) He has attained age 50 and has completed 20 years of Credited Service, or

      (ii) He has attained age 52 and has completed 5 years of Credited Service, or

      (iii) Attainment of age 50 and completion of 20 years of Credited Service on or after August 1, 1993 and prior to December 31, 1994, or on or after January 1, 1997, and is involuntarily separated from service or if the Employer shall have obtained a voluntary early retirement authority from the Assistant Secretary of the Army (Manpower and Reserve Affairs).

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(iv) Attainment of any age and completion of 25 years of Credited Service on or after August 1, 1993, and prior to December 31, 1994, or on or after January 1, 1997, and is involuntarily separated due to loss of position under a business-based action, per authority of the installation commander.

(c) Disability Retirement Date: A Participant who becomes permanently disabled and unable to perform his duties may retire, provided that he:
   (i) Has attained age 52 with 1 year of Credited Service or has completed 5 years of Credited Service if hired before January 1, 2009, or
   (ii) Has completed 5 years of Credited Service if hired on or after January 1, 2009.

(d) Deferred Retirement Date: A Participant may remain in employment beyond his Normal Retirement Date.

5. Pension Benefit at Normal Retirement:

(a) Participants Eligible: All Participants who retire on their Normal Retirement Date.

(b) Annual Benefit: The sum of (i), (ii), and (iii).

   (i) 1.2% of Final Average Earnings plus .3% of Final Average Earnings in excess of Covered Compensation times Years of Credited Service not in excess of fifteen (15) years.

   (ii) 1.6% of Final Average Earning plus 0.3% of Final Average Earnings in excess of Covered Compensation times Years of Credited Service in excess of fifteen (15) years up to thirty (30) years.

   (iii) 1.6% of Final Average Earnings times Years of Credited Service in excess of thirty (30) years.

But not less than the Participant's accrued benefit as of June 30, 1990 under the prior formula.

6. Pension Benefit at Early Retirement:

(a) Participants Eligible: All Participants who retire on an Early Retirement Date.

(b) Annual Benefit: Calculated as in item (5) based on Final Average Earnings and Credited Service at the time of early retirement, reduced by 4% for each year that early retirement precedes Normal Retirement Date. For retirement after attainment of age 55 and completion of 30 years of Credited Service, or after attainment of age 60 and completion of 20 years of Credited Service, no reduction in benefit is applicable.

(c) A Participant who retires on an Early Retirement Date shall receive an annual early retirement supplement payable until the Participant attains his Normal Retirement Date. This benefit continues to the surviving spouse if the participant elected a married form of payment and dies. The amount of the annual supplement shall be (i) $192 or (ii) one half percent (0.5%) of the Participant's Final Average Earnings whichever is less, times Years

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of Credited Service up to twenty-five (25) but shall not exceed $4,800 per year. This annual supplement is increased by any Cost of Living Adjustments thereafter.

(d) A Participant who retires on an Early Retirement Date as described in item 4(b)(iii) and (iv) above shall receive a benefit calculated as in item (5) based on Final Average Earning and Credited Service at the time of early retirement, reduced by 2% for each year that early retirement precedes age 55.

7. Pension Benefit at Disability Retirement:

(a) Participants Eligible: All Participants who retire on a Disability Retirement Date.

(b) Annual Benefit: The sum of (i) and (ii)

(i) 1.2% of Final Average Earnings times Years of Credited Service up to fifteen (15),

(ii) 1.6% of Final Average Earnings time Years of Credited Service in excess of fifteen (15).

The annual benefit shall not exceed 90% of Final Average Earnings when combined with Workers' Compensation.

8. Pension Benefit at Deferred Retirement:

(a) Participants Eligible: All Participants who retire on a Deferred Retirement Date.

(b) Annual Benefit: Calculated as in item (5) based on Final Average Earnings, Covered Compensation, and Credited Service at the time of actual retirement.

9. Vested Benefits:

(a) Participants Eligible: All Participants who complete 5 years of Credited Service.

(b) Annual Benefit: Calculated as in item (5) based on Final Average Earnings, covered Compensation, and Credited Service at the time of termination of employment, if participant does not elect to have his contributions with interest returned to him.

10. Survivor Benefits:

(a) Participants Eligible: Any Participant who was retired on account of disability or who completed 5 years of Credited Service, and at the time of death, either:
(i) was actively employed,
(ii) was separated from active service entitled to a deferred benefit, but had not yet begun to receive retirement benefits, or
(iii) retired under a disability benefit.

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(b) Annual Benefit:
The eligible spouse survivor will receive the amount of benefit, including the early retirement supplement unreduced for early commencement that would have been paid had the Participant retired on the date of death and elected the normal form of payment for married participants.

If a Participant has retired on account of disability, his Spouse shall receive a benefit equal to the retirement benefit that would have been payable had the Participant retired at the time his disability commenced, and elected the normal form of payment for married participants.

11. Employee Contribution

(a) Annual Contribution: 3% of Earnings up to December 31, 1990, 2% of Earnings afterwards.

(b) Interest Credited: 3% per annum.

(c) Benefit: Employees, or their beneficiaries if they are deceased, are eligible to receive a refund of their contributions plus interest in the form of a lump sum.

12. Forms of Benefit Payment:

(a) Normal Form: Reduced 55% joint and survivor annuity for married participants; life annuity for single participants. (For single participants, the excess of the retired Participant's contributions with interest over the sum of benefits paid is returned at his death in a lump sum payment to the retired Participant's beneficiary or estate).

(b) Optional Forms: Actuarially Equivalent 5 or 10 years Certain and Continuous, Life Annuity, or a 100% Contingent Annuitant option.

13. Cost of Living Adjustments

Effective April 1, 1987, benefits paid to pensioners and beneficiaries as of April 1, 1987 were increased .25% for each month from the later of benefit commencement date or April 1, 1985 through December 1, 1986. Pensioners' benefits were previously increased in 1981, 1983, and 1985.

Effective April 1, 1988, and each April 1 thereafter, each participant and beneficiary receiving retirement or survivor benefits from the Plan shall be entitled to have the benefit he or she is then receiving increased by the same percentage as the increase in the average Consumer Price Index – Urban Wage Earners and Clerical Workers (CPI-W) for the third quarter of the preceding year, or by four percent (4%), whichever is the lesser figure. For those years when the Consumer Price Index exceeds 4%, the Benefits Program Manager and the Trustees, upon review of the financial conditions of the Plan, may recommend to the Commander increases of more than 4%.

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14. Changes In Plan Since Prior Valuation

None.