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**FAIRMONT POLICEMEN'S  
RELIEF ASSOCIATION**

*December 31, 2005  
Actuarial Valuation*

**VAN IWAARDEN**

**FAIRMONT POLICEMEN'S  
RELIEF ASSOCIATION**

*December 31, 2005  
Actuarial Valuation*

July, 2006

**FAIRMONT POLICEMEN'S RELIEF ASSOCIATION**

*December 31, 2005 Actuarial Valuation*

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**FAIRMONT POLICEMEN'S RELIEF ASSOCIATION**  
*December 31, 2005 Actuarial Valuation*

**Introduction**

**Purpose**

This report presents the results of the December 31, 2005 valuation and benefit study for the Fairmont Policemen's Relief Association. Its primary purposes are:

- to determine the funded status as of December 31, 2005,
- to determine the amortization payment for 2005, and
- to present information required to be disclosed under General Accounting Standards Board Statement No. 25 (GASB 25) as of December 31, 2005.

**Sources of Data**

The Relief Association supplied December 31, 2005 census data for all members. Roessler, Nuss & Co., P.A. provided audited asset data for the Special Fund. We have relied on this data in preparing this report.

**Changes from the Previous Valuation**

The prior actuarial valuation of the plan was prepared as of December 31, 2004. The actuarial assumptions and methods used to prepare this report are the same as those used in the 2004 report. The annual benefit value per unit increased from \$761.17 on December 31, 2004 to \$770.77 on December 31, 2005, a 1.26% increase, 2.24% less than the assumed increase of 3.5%.

**Summary of Valuation Results**

The market value of assets decreased slightly from last year, from \$6,737,834 to \$6,732,970. The actuarial value of assets, which is based on book value, increased from \$6,437,777 to \$6,480,110 as of December 31, 2005. The investment return on the actuarial value of assets was about 3.67%, less than the assumed 5% rate set by statute.

The funded status of the plan increased from 81.4% on December 31, 2004 to 83.8% on December 31, 2005. The increase was generated principally by the level of benefit increase described above. The amortization payment has increased from \$323,808 last year, to \$336,725 this year.

**FAIRMONT POLICEMEN'S RELIEF ASSOCIATION**  
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**Introduction (continued)**

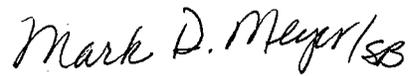
**Actuarial Certification**

We certify that the actuarial valuation has been prepared in accordance with Minnesota Statutes §§356.20-.23 and §69.77 as they relate to local police department relief associations in general and the Fairmont Policemen's Relief Association in particular.

Respectfully submitted,



Paul D. Krueger, JD, EA  
Consulting Actuary



Mark D. Meyer, JD, FSA  
Consulting Actuary

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

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December 31, 2005 Actuarial Valuation

**Summary of Results**

	<u>December 31, 2004</u>	<u>December 31, 2005</u>
<b><u>A. Membership data*</u></b>		
1. Liability Duration		
a. Average annuity factor	14.2	13.8
b. Average life expectancy	14.1	13.5
2. Number of members		
a. Retirees	10	10
b. Surviving spouses	4	4
c. Total	14	14
<b><u>B. Amortization payments</u></b>		
1. Unfunded actuarial accrued liability	1,472,016	1,253,709
2. Amortization payment	323,808	336,725
<b><u>C. Value of plan assets</u></b>		
1. Market value	6,737,834	6,732,970
2. Actuarial value (for calculating contributions)	6,437,777	6,480,110
3. Investment return on actuarial value of assets	7.76%	3.62%
<b><u>D. Benefit liabilities</u></b>		
1. Present value of future benefits	7,909,793	7,733,819
2. Actuarial accrued liability	7,909,793	7,733,819
<b><u>E. Funded status</u></b>		
1. Actuarial value of assets as a % of liabilities	81.4%	83.8%
2. Market value of assets as a % of liabilities	85.2%	87.1%

\*This is a closed group, all members have retired, so there are only retirees and beneficiaries.

**FAIRMONT POLICEMEN'S RELIEF ASSOCIATION**

*December 31, 2005 Actuarial Valuation*

***Funding Basis***

**Actuarial Value of Assets**

**A. Unrealized gain**

<u>Year Ending December 31:</u>	<u>Market Value</u>	<u>Book Value</u>	<u>Unrealized Gain (Market - Book)</u>
2002	6,178,561	6,557,781	(379,220)
2003	6,569,640	6,305,960	263,680
2004	6,737,834	6,287,748	450,086
2005	6,732,970	6,353,680	379,290

December 31, 2004   December 31, 2005

**B. Actuarial value of assets**

1. Book value	6,287,748	6,353,680
2. One-third of unrealized gain	<u>150,029</u>	<u>126,430</u>
3. Actuarial value (1. + 2.)	\$6,437,777	\$6,480,110



*December 31, 2005 Actuarial Valuation***Summary of Changes in Membership**

	<u>Retirees</u>	<u>Beneficiaries</u>	<u>Total</u>
<b><i>A. Number of members on December 31, 2004</i></b>	10	4	14
<b><i>B. Changes in membership</i></b>			
1. Deaths			0
2. Corrections			0
3. Total changes	0	0	0
<b><i>C. Number of members on December 31, 2005</i></b>	10	4	14

**FAIRMONT POLICEMEN'S RELIEF ASSOCIATION**

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*December 31, 2005 Actuarial Valuation****Funding Basis*****Actuarial Values Used to Determine Contribution**

December 31, 2004    December 31, 2005

**A. Actuarial present value of projected benefits (the value of all future benefits to be paid to the current group of members)**

1. Active members	\$0	\$0
2. Vested terminated members	0	0
3. Retired members	6,745,859	6,604,495
4. Spouses and children receiving benefits	1,163,934	1,129,324
5. Disabled members receiving benefits	0	0
6. Total present value of projected benefits	7,909,793	7,733,819

**B. Actuarial accrued liability (the cost allocated to all prior years)**

1. Active members	\$0	\$0
2. Vested terminated members	0	0
3. Retired members	6,745,859	6,604,495
4. Spouses and children receiving benefits	1,163,934	1,129,324
5. Disabled members receiving benefits	0	0
6. Total actuarial accrued liability	7,909,793	7,733,819

**C. Amortization of unfunded actuarial accrued liability**

1. Total actuarial accrued liability (A.7.)	\$7,909,793	\$7,733,819
2. Actuarial value of assets	6,437,777	6,480,110
3. Unfunded actuarial accrued liability (1. - 2.)	1,472,016	1,253,709
4. Funded status (2. / 3.)	81.4%	83.8%
5. Years left in amortization period	5	4
6. Amortization payment	323,808	336,725

**E. Key economic assumptions**

1. Funding interest rate	5.00%	5.00%
2. Annual benefit increase rate	3.50%	3.50%

This is a closed group, all members have retired, so there is no normal cost.

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December 31, 2005 Actuarial Valuation

**Changes in the Unfunded Actuarial Accrued Liability**

**A. Liability gain or loss for the year ending on December 31, 2005**

1. Expected actuarial accrued liability (AAL)	
a. AAL as of December 31, 2004	\$7,909,793
b. Normal cost as of December 31, 2004	0
c. Interest to December 31, 2005 on the AAL and normal cost	395,490
d. Expected benefit payments for the year (excluding post-retirement benefits)	(530,814)
e. Interest on benefit payments (1/2 year)	(13,270)
f. Expected AAL on December 31, 2005 (sum of a. through e.)	7,761,199
2. Actual AAL on December 31, 2005	
a. Before any assumption or plan changes	7,904,796
b. After assumption changes, but before any unit value changes	7,904,796
c. After assumption and unit value changes	7,733,819
3. Liability (gain) or loss	
a. Due to plan experience different from that expected (2a. - 1f.)	143,597
b. Due to changes in actuarial assumptions (2b. - 2a.)	0
c. Due to changes in unit value (2c. - 2b.)	(170,977)
d. Total (a. + b. + c.)	(27,380)

**B. Asset gain or loss for the year ending on December 31, 2005**

1. Expected actuarial value of assets	
a. Actuarial value of assets on December 31, 2004	6,437,777
b. Actual benefit payments and expenses for the year	(558,495)
c. Contributions for the year	323,808
d. Expected return on assets	316,022
e. Expected actuarial value of assets on December 31, 2005 (sum of a. through d.)	6,519,111
2. Actual actuarial value of assets on December 31, 2005	6,480,110
3. Asset (gain) or loss (1e. - 2.)	39,001

**C. Changes in the unfunded AAL**

1. Expected unfunded AAL on December 31, 2005	1,242,088
2. Changes	
a. Actuarial (gain) or loss other than change in unit value	182,598
b. Change in unit value different from expected	(170,977)
c. Changes in actuarial methods and assumptions	0
d. Total change	
3. Unfunded AAL on December 31, 2005	1,253,709

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

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December 31, 2005 Actuarial Valuation

*Accounting Basis*

Statement of Plan Net Assets - Market Value

	<u>December 31, 2004</u>	<u>December 31, 2005</u>
<b><u>A. Assets</u></b>		
1. Cash	\$0	\$0
2. Short-term investments	<u>0</u>	<u>0</u>
3. Total	0	0
<b><u>B. Receivables</u></b>		
1. Accrued interest	4,277	5,223
2. Distributions	236	7
3. Accrued contributions	<u>0</u>	<u>0</u>
4. Total	4,513	5,230
<b><u>C. Accounts payable</u></b>		
	0	0
<b><u>D. Investments, at fair value</u></b>		
1. Money market	12,134	155,808
2. Mutual funds	3,188,682	3,317,464
3. Asset and mortgage backed securities	1,612,927	1,149,873
4. Unit trusts	871,035	937,599
5. Corporate bonds	71,250	72,475
6. Government securities	948,153	1,082,036
7. GNMA mortgage certificate	16,892	10,475
8. Limited partnerships	<u>12,248</u>	<u>2,010</u>
9. Total	6,733,321	6,727,740
<b><u>E. Net assets held in trust for pension benefits</u></b>		
	6,737,834	6,732,970

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

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December 31, 2005 Actuarial Valuation

Accounting Basis

Statement of Changes in Plan Net Assets

	December 31, 2004	December 31, 2005
<b><u>A. Additions</u></b>		
1. Contributions		
a. Employer	\$218,835	\$323,808
b. Plan members	0	0
c. Total	218,835	323,808
2. Investment income		
a. Interest and dividends	303,318	315,438
b. Partnership income	2,613	0
c. Realized gain (loss)	(12,980)	(14,826)
d. Change in unrealized appreciation (depreciation)	<u>186,403</u>	<u>(70,789)</u>
e. Total	479,354	229,823
3. Total additions	698,189	553,631
<b><u>B. Deductions</u></b>		
1. Service pensions	382,788	413,790
2. Survivors pensions	114,646	104,644
3. Distributions to members	11,918	11,918
4. Professional services	8,816	15,896
5. Salaries	6,423	6,750
6. Other expenses	<u>5,404</u>	<u>5,497</u>
7. Total deductions	529,995	558,495
<b><u>C. Net increase</u></b>	168,194	(4,864)
<b><u>D. Adjustments</u></b>	0	0
<b><u>E. Net assets held in special fund</u></b>		
1. Beginning of year	\$6,569,640	\$6,737,834
2. End of year	\$6,737,834	\$6,732,970
<b><u>F. Investment return</u></b>		
1. Market value of assets	7.47%	3.47%
2. Actuarial value of assets	7.76%	3.62%

**FAIRMONT POLICEMEN'S RELIEF ASSOCIATION**

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*December 31, 2005 Actuarial Valuation**Accounting Basis***Schedule of Funding Progress***(Dollar amounts in thousands)*

<u>As of December 31:</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
1993	\$4,570	\$5,781	\$1,211	79.1%	\$218	555.5%
1994	4,828	5,987	1,159	80.6%	223	519.7%
1995	5,274	6,066	792	86.9%	243	325.9%
1996	5,808	6,179	371	94.0%	200	185.5%
1997	6,516	6,164	(352)	105.7%	210	-167.6%
1998	6,355	6,835	480	93.0%	163	294.7%
1999	7,113	7,174	61	99.1%	118	407.0%
2000	7,170	7,245	75	99.0%	-	-
2001	6,960	7,573	613	91.9%	-	-
2002	6,431	7,831	1,400	82.1%	-	-
2003	6,431	7,831	1,400	82.1%	-	-
2004	6,438	7,910	1,472	81.4%	-	-
2005	6,480	7,734	1,254	83.8%	-	-

**FAIRMONT POLICEMEN'S RELIEF ASSOCIATION**  
*December 31, 2005 Actuarial Valuation*

*Accounting Basis*

**Schedule of Employer Contributions**

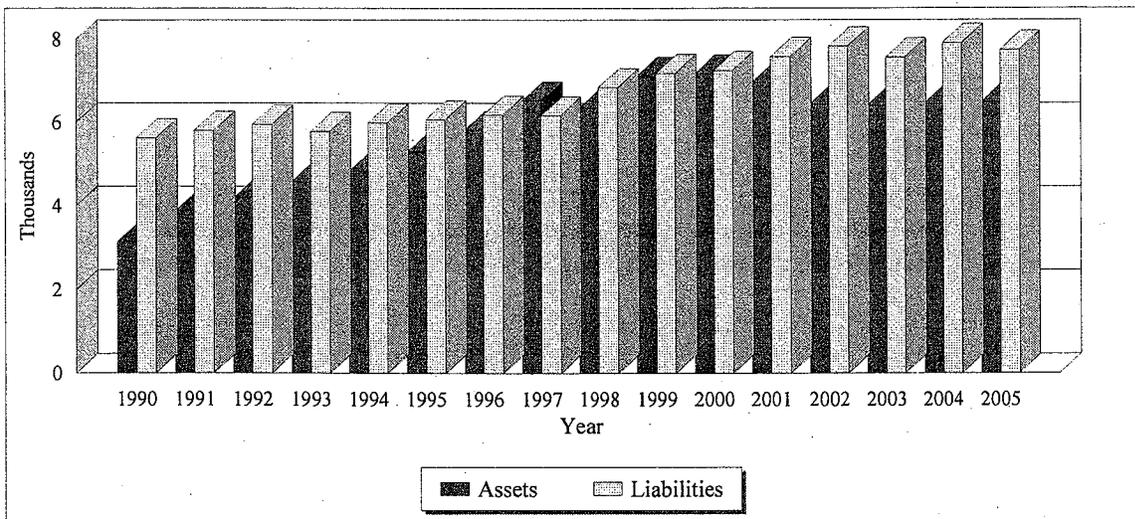
<u>Year Ended</u> <u>December 31:</u>	<u>Annual Employer</u> <u>Contributions</u>
1993	\$243,556
1994	243,726
1995	208,626
1996	163,177
1997	257,828
1998	5,829
1999	0
2000	7,529
2001	10,095
2002	90,321
2003	230,291
2004	218,835
2005	323,808

**FAIRMONT POLICEMEN'S RELIEF ASSOCIATION**  
*December 31, 2005 Actuarial Valuation*

*Historical Tables*

**Historical Funding Ratio Schedule**  
*(Dollar amounts in thousands)*

<u>As of December 31:</u>	<u>Actuarial Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Percent Funded</u>
1990	\$5,627	\$3,137	55.7%
1991	5,803	3,874	66.8%
1992	5,952	4,179	70.2%
1993	5,781	4,570	79.1%
1994	5,987	4,828	80.6%
1995	6,066	5,274	86.9%
1996	6,179	5,808	94.0%
1997	6,164	6,516	105.7%
1998	6,835	6,355	93.0%
1999	7,174	7,113	99.1%
2000	7,245	7,170	99.0%
2001	7,573	6,960	91.9%
2002	7,831	6,431	82.1%
2003	7,560	6,394	84.6%
2004	7,910	6,438	81.4%
2005	7,734	6,480	83.8%



*Historical Tables*

**History of Employer Contributions**

<u>Valuation</u> <u>December 31:</u>	<u>Normal Cost</u> <u>as a Percent</u> <u>of Payroll</u>	<u>Amortization</u> <u>of Unfunded</u> <u>Actuarial</u> <u>Liability</u>
1990	36.40%	\$201,066
1991	36.26%	161,011
1992	35.13%	153,456
1993	35.13%	109,085
1994	35.24%	108,913
1995	35.51%	78,140
1996	35.54%	38,541
1997	36.49%	0
1998	37.21%	56,447
1999	-	7,529
2000	-	10,095
2001	-	90,321
2002	-	230,291
2003	-	218,835
2004	-	323,808
2005	-	336,725

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

December 31, 2005 Actuarial Valuation

*Historical Tables*

**Comparative Schedule of Active Members**

Valuation December 31:	Number of Active Members	Valuation Payroll	Averages				% Increase
			Age	Service	Pay		
1990	6	\$246,839	45.5	19.8	\$41,140	3.5%	
1991	6	254,243	46.5	20.8	42,374	3.0%	
1992	5	217,830	46.8	21.9	43,566	2.8%	
1993	5	223,316	47.8	22.9	44,663	2.5%	
1994	5	243,049	48.8	23.9	48,610	8.8%	
1995	4	199,651	49.5	24.5	49,913	2.7%	
1996	4	209,607	50.5	25.5	52,402	5.0%	
1997	3	163,423	51.0	25.5	54,474	4.0%	
1998	2	117,841	52.5	27.4	58,921	8.2%	
1999	0	-	-	-	-	-	
2000	0	-	-	-	-	-	
2001	0	-	-	-	-	-	
2002	0	-	-	-	-	-	
2003	0	-	-	-	-	-	
2004	0	-	-	-	-	-	
2005	0	-	-	-	-	-	

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

December 31, 2005 Actuarial Valuation

*Historical Tables*

**Comparative Schedule of Inactive Members**

As of December 31:	Number of Retirees and Beneficiaries			Annual Benefits	Present Value of Benefits
	Added to Rolls	Removed from Rolls	On Valuation Date		
1990				\$252,417	\$3,526,812
1991	0	0	14	261,491	3,521,472
1992	0	0	14	287,546	3,944,772
1993	1	0	15	250,879	3,611,904
1994	0	2	13	242,682	3,504,876
1995	0	1	12	264,009	3,954,504
1996	2	1	13	262,615	3,848,304
1997	0	1	12	286,633	4,302,888
1998	2	1	13	342,613	5,418,324
1999	1	0	14	444,729	7,174,075
2000	2	0	16	452,326	7,245,193
2001	0	1	15	463,261	7,573,377
2002	0	1	14	494,356	7,830,552
2003	0	0	14	494,954	7,560,132
2004	0	0	14	535,864	7,909,793
2005	0	0	14	542,622	7,733,819

**FAIRMONT POLICEMEN'S RELIEF ASSOCIATION**

*December 31, 2005 Actuarial Valuation*

**Actuarial Methods and Assumptions**

- |   |   |
|---|---|
| 1. Mortality                              | The UP-1984 Mortality Table set forward 2 years for males and set back 3 years for females.   |
| 2. Withdrawal, disability, retirement age | As of December 31, 1999, there are no active members, and the plan is closed to new members.  |
| 3. Interest rate                          | 5% compounded annually.   |
| 4. Cost-of-living adjustment              | 3.5% annually. Benefits for members retiring as lieutenants remain level until they equal the benefits of a first class patrolman.  |
| 5. Actuarial cost method                  | The Entry Age Normal Cost Method. Under this method, the normal cost for an individual member is the level annual dollar amount required, beginning on the date of joining the association, to accumulate the funds needed to pay the member's accrued benefits by their assumed retirement age. There is no normal cost for a member or beneficiary in pay status. The actuarial accrued liability is the accumulated value of these annual normal costs on a given date. For members or beneficiaries receiving monthly benefits, the accrued liability is the present value of future benefit payments. The normal cost and accrued liability for the plan is the total of these values for all members. |

**FAIRMONT POLICEMEN'S RELIEF ASSOCIATION***December 31, 2005 Actuarial Valuation***Summary of Plan Provisions**

1. Normal Retirement Benefit      50% of "base pay" with 20 years of service, increased 2% per year up to a maximum of 60%. "Base pay" is the prevailing pay of a first class patrolman for the City of Fairmont. All members are now retired. Their benefit is the benefit they are currently receiving, adjusted by increases in base pay.
2. Deferred Vested Benefit      None. All members are retired.
3. Surviving Spouse's Benefit      Annual benefit equal to 35% of base pay. If surviving spouse married member after retirement, marriage must have occurred at least five years before member's death.
4. Surviving Children's Benefit      Annual benefit equal to 6.25% of base pay per child, up to a maximum benefit of 25% of base pay if spouse is receiving benefits, or 50% if no spouse. Children are eligible until attainment of age 18.
5. Member Contributions      None. There are no active members.