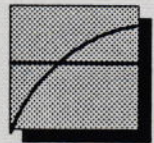


**Fairmont
Policemen's Benefit Association**



**Annual Actuarial Valuation
December 31, 1992**

**Gabriel, Roeder, Smith & Company
Actuaries and Consultants**



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Appendix I Financial Principles and Operational Techniques

Appendix II Meaning of Unfunded Accrued Liabilities

LCP & R APR 13 1993

February 24, 1993

Board of Trustees
Fairmont Policemen's Benefit Association
Fairmont, Minnesota

Submitted in this report are the results of the December 31, 1992 actuarial valuation of the assets, actuarial values and contribution requirements associated with the benefits provided by the Fairmont Policemen's Benefit Association.

The valuation results contained in Section A provide the actuarial information needed to determine the employer's "minimum obligation" effective January 1, 1994. Section A also contains comments regarding the valuation results.

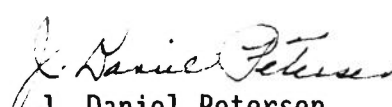
The valuation was based upon information furnished by the Association concerning benefits, financial transactions, active members, terminated members, retirants and beneficiaries. Data was checked for year to year consistency but was not otherwise audited by us. This information is summarized in Section B.

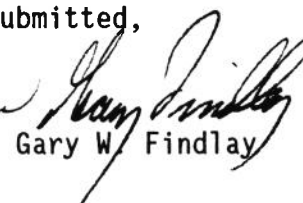
A description of the actuarial funding method and the risk experience assumptions used is contained in Section C. The economic risk experience assumptions, as well as the actuarial funding method to be used, are established by state law.

Information needed to comply with Statement No. 5 of the Governmental Accounting Standards Board is contained in Section D.

The actuarial valuation was prepared using generally accepted actuarial principles and practices based upon the methods, assumptions, summary of plan provisions and the member and financial data described in this report.

Respectfully submitted,


J. Daniel Petersen


Gary W. Findlay

Section A

Valuation Results

COMMENTS

Economic Assumptions and Financing Method

The economic assumptions of 5% annual investment return and 3-1/2% annual salary increases are established by state law. State law also specifies that the annual minimum obligation of the municipality shall be determined by adding (i) the employer normal cost percent times covered payroll to (ii) the level dollar amount required to amortize the unfunded actuarial accrued liability by December 31, 2010.

It is worth noting that when the same assumptions and methods are applied to plans which differ in nature, the valuation results may not be comparable. Caution should be exercised when attempting to assess the financial condition of one Association relative to another on the basis of valuation results produced using the assumptions and methods mandated by state law.

Fairmont Policemen's Benefit Association

CONTRIBUTION RATE TO PROVIDE BENEFITS

Member portion & Employer portion

Effective January 1, 1994

<u>Contributions for</u>	<u>If Paid Equally Throughout Year</u>		<u>UAAL Dollars</u>
	Normal Cost % of Active Payroll for 1994	+	
Normal cost of annuities:			
Age & service: to members	27.07%		
Age & service: to survivors	4.04		
Disability	2.16		
Death before retirement	1.52		
Refunds of member contributions	<u>0.34</u>		
Total Normal Cost	35.13%		
Amortization of unfunded actuarial accrued liabilities (UAAL) (17 year level dollar payment)			
Retired lives			\$ 0
Active members			<u>153,456</u>
Total			153,456
 Total Cost of Benefits	 35.13%	 +	 \$153,456
 Member contributions	 8.00%		
 COMPUTED EMPLOYER RATE:			
(a) If Paid Equally Throughout Year	27.13%	+	\$153,456
(b) IF PAID AT CALENDAR YEAR END	27.80%	+	\$157,246

Fairmont Policemen's Benefit Association
 Present Actuarial Condition

The Association's accrued actuarial assets were in excess of \$4.1 million on December 31, 1992 -- a considerable sum of money if unencumbered and allocated among a small group of persons. This is not the case with the Association's assets.

The following schedule puts the \$4.1 million into perspective by showing the relationship between accrued actuarial assets, actuarial accrued liabilities, and the number of persons with actual and potential claims on the Association's assets.

	<u>Accrued Actuarial Assets</u>	<u>Actuarial Accrued Liabilities</u>	<u>Unfunded Actuarial Accrued Liabilities</u>	<u>Percent Funded</u>
Retirants and Beneficiaries				
Retired Members (12)		\$3,695,280		
Surviving Spouses (3)		249,492		
Surviving Children (0)		<u>0</u>		
Total (15)	\$3,944,772	\$3,944,772	\$ 0	100.0%
Deferred Members (0)	0	0	0	0.0
Active Members (5)	<u>234,194</u>	<u>2,007,171</u>	<u>1,772,977</u>	11.7
Total	\$4,178,966	\$5,951,943	\$1,772,977	70.2%

Actuarial accrued liabilities represent the value, computed as of December 31, 1992 of:

- (i) retirement allowances likely to be paid the 15 retirants and beneficiaries; and
- (ii) the contributions assumed to have been made for the 5 active members from entry into the plan until December 31, 1992.

The value of retirement allowances likely to be paid the 15 retirants and beneficiaries, discounted for investment earnings and mortality, was computed to be \$3,944,772 as of December 31, 1992. To put this amount in perspective, the \$3,944,772, together with investment earnings, will just be sufficient to pay the 15 retirants and beneficiaries their allowances for their remaining lifetimes. This assumes the 15 retirants and beneficiaries live and die according to the assumed mortality and the \$3,944,772 is invested to yield an average annual return of 5.0% over the remaining lifetimes of the retirants and beneficiaries.

With respect to the active members, the actuarial accrued liability of \$2,007,171 represents the amount that would have been accumulated by December 31, 1992. This assumes the normal cost (which is expressed as a level percentage of pay) had been contributed from the date of hire until December 31, 1992 for the 5 actives, and that these amounts had earned 5.0% interest. It also assumes that the members in the past have lived, died, withdrawn, retired and received salary increases according to the actuarial assumptions shown in this report.

Historical Funding Ratio Schedule
(\$ in thousands)

<u>Valuation Date December 31</u>	<u>Actuarial Accrued Liabilities</u>	<u>Accrued Actuarial Assets</u>	<u>Percent Funded</u>
1983*	\$3,100	\$1,225	39.5
1984	3,214	1,623	50.5
1985	3,365	1,902	56.5
1986	3,528	2,185	61.9
1987	3,660	2,455	67.1
1988	4,055	2,656	65.5
1989#	5,474	2,981	54.5
1990	5,627	3,137	55.7
1991	5,803	3,874	66.8
1992	5,952	4,179	70.2

* After change in assumptions.

After court ruling on definition of prevailing pay.

Fairmont Policemen's Benefit Association
 Computed Contributions - Comparative Schedule

<u>Year Ended</u> <u>December 31</u>		<u>Total Normal Cost</u> <u>as a Percent of</u> <u>Valuation Payroll*</u>	<u>Contribution For</u> <u>Unfunded Actuarial</u> <u>Accrued Liabilities</u>
<u>Valuation</u>	<u>Fiscal</u>		
1983	1985**	38.23%	\$127,267
1984	1986	38.21	110,179
1985	1987	37.67	103,487
1986	1988	37.69	97,143
1987	1989	37.31	89,312
1988	1990	36.54	106,509
1989	1991#	36.55	195,178
1990	1992	36.40	201,066
1991	1993	36.26	161,011
1992	1994	35.13	153,456

* Includes employee contributions.

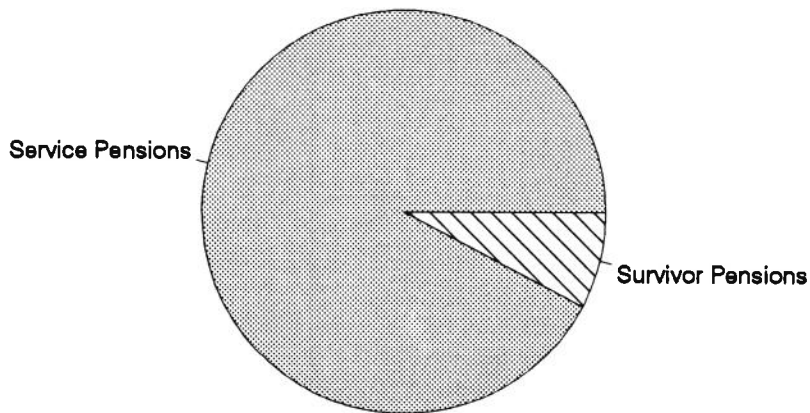
** After change in assumptions.

After court ruling on definition of prevailing pay.

Section B
Valuation Data
and
Summary of Benefit Provisions

Fairmont Policemen's Benefit Association
 Retirants and Beneficiaries December 31, 1992
 By Type of Annuity Being Paid

<u>Type of Annuity Being Paid</u>	<u>No.</u>	<u>Monthly Amounts</u>	<u>Computed Actuarial Accrued Liabilities</u>
Retirants receiving:			
Age & Service	12	\$22,122.20	\$3,695,280
Disability	<u>0</u>	<u>0.00</u>	<u>0</u>
Totals	12	22,122.20	3,695,280
Beneficiaries receiving:			
Spouse	3	1,840.00	249,492
Child	<u>0</u>	<u>0.00</u>	<u>0</u>
Totals	3	1,840.00	249,492
Totals	15	\$23,962.20	\$3,944,772



Monthly Amount Paid by Benefit

Fairmont Policemen's Benefit Association
 Retirants and Beneficiaries December 31, 1992
 By Attained Ages

Attained Ages	Number		
	<u>Age & Service</u>	<u>Disability</u>	<u>Death Before Retirement</u>
50-54	3		
55-59	1		1
65-69	4		
70-74	4		
80-84	<u>2</u>		—
Totals	14		1

Fairmont Policemen's Benefit Association
Retirants and Beneficiaries Added to and Removed from Rolls
Comparative Statement

<u>Valuation Date December 31</u>	<u>No. Added to Rolls</u>	<u>No. Removed from Rolls</u>	<u>Rolls End of Year</u>		<u>Discounted Value of Total Allowances</u>
			<u>No.</u>	<u>Annual Allowances</u>	
1983	1		11	\$110,106	\$1,740,007
1984	1	1	11	108,571	1,586,676
1985			11	112,238	1,582,140
1986			11	115,051	1,559,976
1987			11	117,507	1,534,608
1988	3		14	182,167	2,732,532
1989			14	245,520	3,553,860
1990			14	252,417	3,526,812
1991			14	261,491	3,521,472
1992	1		15	287,546	3,944,772

