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**Fairmont  
Policemen's Relief Association**

**Annual Actuarial Valuation  
December 31, 1998**



**Gabriel, Roeder, Smith & Company**

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**LCP & R JUN 11 1999**

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Gabriel, Roeder, Smith & Company



Consultants & Actuaries



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April 15, 1999

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

Submitted in this report are the results of the December 31, 1998 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, 2000. 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. 25 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,

A handwritten signature in black ink, appearing to read 'Norman S. Losk'.

Norman S. Losk

A handwritten signature in black ink, appearing to read 'Mary Ann Vitale'.

Mary Ann Vitale

## **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.

### **Change in benefit provisions**

The December 31, 1998 actuarial valuation included the increase in spouse's benefit from 25% to 35% of prevailing pay. Benefits are also available to spouses who married after the member terminated active employment if legally married for 5 years prior to the member's death. The effect of these changes were an increase in normal cost 0.62% of payroll, an increase of \$425,819 in actuarial accrued liability and an increase of \$50,024 in the amortization of the actuarial accrued liability.

**CONTRIBUTION RATE TO PROVIDE BENEFITS**

**Member portion & Employer portion**

**Effective January 1, 2000**

Contributions for	If Paid Equally Throughout Year		
	Normal Cost % of Active Payroll for 2000	+	UAAL Dollars
Normal cost of annuities:			
Age & service: to members	32.19%		
Disability	2.42		
Death before retirement	2.16		
Refunds of member contributions	0.44		
Total Normal Cost	37.21%		
Amortization of unfunded actuarial accrued liabilities (UAAL) (11 year level dollar payment)			
Retired lives			\$ 0
Active members			0
Total			0
Total Cost of Benefits	37.21%	+	\$ 0
Member contributions	8.00%		
<b>COMPUTED EMPLOYER RATE:</b>			
(a) If Paid Equally Throughout Year	29.21%	+	\$ 0
(B) IF PAID AT CALENDAR YEAR END	29.93%	+	\$ 0

## PRESENT ACTUARIAL CONDITION

The Association's accrued actuarial assets were in excess of \$7.2 million on December 31, 1998 -- 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 \$7.2 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.

	<b>Accrued Actuarial Assets</b>	<b>Actuarial Accrued Liabilities</b>	<b>Unfunded Actuarial Accrued Liabilities</b>	<b>Percent Funded</b>
Retirants and Beneficiaries				
Retired Members (10)		\$4,864,380		
Surviving Spouses (4)		553,944		
Surviving Children (0)		0		
Total (14)	\$5,418,324	\$5,418,324	\$ 0	100.0%
Deferred Members (0)	0	0	0	0.0
Active Members (2)	1,793,790	1,416,878	(376,912)	126.6
Total	\$7,212,114	\$6,835,202	\$(376,912)	105.5%

Actuarial accrued liabilities represent the value, computed as of December 31, 1998 of:

- (i) retirement allowances likely to be paid the 14 retirants and beneficiaries; and
- (ii) the contributions assumed to have been made for the 2 active members from entry into the plan until December 31, 1998.

The value of retirement allowances likely to be paid the 14 retirants and beneficiaries, discounted for investment earnings and mortality, was computed to be \$5,418,324 as of December 31, 1998. To put this amount in perspective, the \$5,418,324, together with investment earnings, will just be sufficient to pay the 14 retirants and beneficiaries their allowances for their remaining lifetimes. This assumes the 14 retirants and beneficiaries live and die according to the assumed mortality and the \$5,418,324 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 \$1,461,878 represents the amount that would have been accumulated by December 31, 1998. 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, 1998 for the 2 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)

Valuation Date December	Actuarial Accrued Liabilities	Accrued Actuarial Assets	Percent Funded
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
1993	5,781	4,570	79.0
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	7,212	105.5

# After court ruling on definition of prevailing pay.



## COMPUTED CONTRIBUTIONS - COMPARATIVE SCHEDULE

Year Ended December 31		Total Normal Cost as a Percent of Valuation Payroll*	Contribution For Unfunded Actuarial Accrued Liabilities
Valuation	Fiscal		
1989	1991#	36.55%	\$195,178
1990	1992	36.40	201,066
1991	1993	36.26	161,011
1992	1994	35.13	153,456
1993	1995	35.13	109,085
1994	1996	35.24	108,913
1995	1997	35.51	78,140
1996	1998	35.54	38,541
1997	1999	36.49	0
1998	2000	37.21	0

\* *Includes employee contributions.*

# *After court ruling on definition of prevailing pay.*

## CONTRIBUTION FOR CALENDAR YEAR EFFECTIVE JANUARY 1, 2000

For any period of time the percent-of-payroll contribution rate is converted to dollars. The amount of dollars for any calendar year depends upon the results of the last actuarial valuation, and the timing of contributions within the year. The later the contribution date, the greater the dollar amount will be.

The municipality's dollar contribution for the year may be determined as follows:

(1) Estimated covered payroll for 2000	\$ _____	
(2) Total normal cost % from page A-2	37.21%	
(3) Total normal cost (Line 1 times line 2)		\$ _____
(4) _____ x 1.035 1998 Administrative expenses paid from the Special Fund		_____
(5) Amortization payment on UAAL from page A-2		0
(6) Total contributions required (Line 3 plus line 4 plus line 5)		_____
(7) Employee contributions (Line 1 times 8%)	\$ _____	
(8) (a) State amortization aid based on 12/31/78 UAAL of \$1,161,771	\$17,485	
(b) State amortization aid based on 1984 legislation	<u>3,015</u>	
(c) Total State amortization aid	20,500	
(9) Estimated insurance premium aid	_____	
(10) Estimated total contributions from other sources (Line 7 plus line 8 plus line 9)		_____
(11) Employer's Minimum Obligation if payment is made in equal installments throughout the year (Line 6 minus line 10)		\$ _____
(12) EMPLOYER'S MINIMUM OBLIGATION IF PAYMENT IS MADE AT YEAR END (LINE 11 TIMES 1.0247)		\$ _____

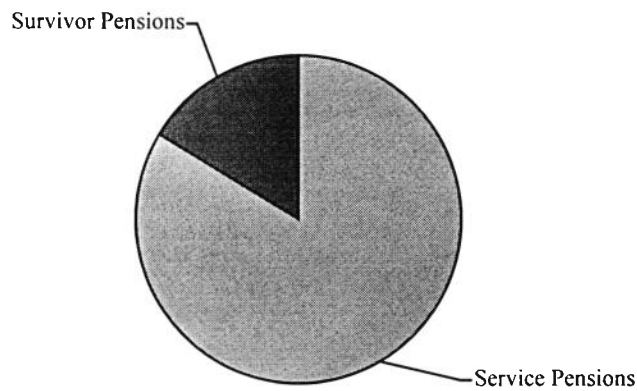
## **Section B**



# **Valuation Data and Summary of Benefit Provisions**

**RETIRANTS AND BENEFICIARIES DECEMBER 31, 1998  
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	10	\$23,881.60	\$4,864,380
Disability	<u>0</u>	<u>0.00</u>	<u>0</u>
Totals	10	23,881.60	4,864,380
Beneficiaries receiving:			
Spouse	4	4,669.50	553,944
Child	<u>0</u>	<u>0.00</u>	<u>0</u>
Totals	4	4,669.50	553,944
Totals	14	\$28,551.10	\$5,418,324



**Monthly Amount Paid by Benefit**

**RETIRANTS AND BENEFICIARIES DECEMBER 31, 1998**  
**BY ATTAINED AGES**

Attained Ages	Number		
	Age & Service	Disability	Death Before Retirement
50-54	3		
55-59	2		
60-64	2		1
65-69	1		
70-74	1		
75-79	3		
80-84	<u>1</u>		—
Totals	13		1

**RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS  
COMPARATIVE STATEMENT**

Valuation Date December 31	No. Added to Rols	No. Removed from Rols	Rols End of Year		Discounted Value of Total Allowances
			No.	Annual Allowances	
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
1993		2	13	250,879	3,611,904
1994		1	12	242,682	3,504,876
1995	2	1	13	264,009	3,954,504
1996		1	12	262,615	3,848,304
1997	2	1	13	286,633	4,302,888
1998	1		14	342,613	5,418,324

**Average Annual Allowances**

