

**FAIRMONT POLICEMEN'S  
RELIEF ASSOCIATION**

*December 31, 2001  
Actuarial Valuation*

June, 2002



**FILE COPY**

# FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

December 31, 2001 Actuarial Valuation

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**FAIRMONT POLICEMEN'S RELIEF ASSOCIATION***December 31, 2001 Actuarial Valuation***Introduction****Purpose**

This report presents the results of the December 31, 2001 valuation and benefit study for the Fairmont Policemen's Relief Association. Its primary purposes are:

- to determine the funded status as of December 31, 2001,
- to determine the amortization payment for 2001, and
- to present information required to be disclosed under General Accounting Standards Board Statement No. 25 (GASB 25) as of December 31, 2001.

**Sources of Data**

The Relief Association supplied December 31, 2001 data for all active and retired 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, 2000. The actuarial assumptions and methods used to prepare this report are identical to those used in the 2000 report. The annual benefit value per unit increased from \$588.20 on December 31, 2000 to \$643.65 on December 31, 2001, a 9.43% increase.

**Summary of Valuation Results**

The funded status of the plan decreased slightly from 99.0% on December 31, 2000 to 91.9% on December 31, 2001. The decrease in funded status was caused by actuarial losses both in assets and liabilities over the past year: the investment return was less than assumed (1.53% versus 5%), and the benefit increase was greater than assumed (9.43% versus 3.5%). These results have caused the amount of the amortization payment to increase from \$10,095 last year, to \$90,321 this year.

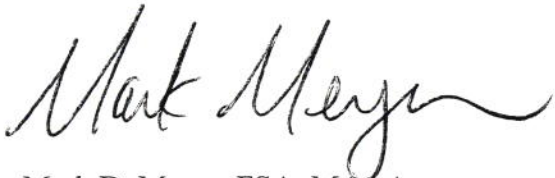
**FAIRMONT POLICEMEN'S RELIEF ASSOCIATION**  
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**Introduction (continued)**

**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,



Mark D. Meyer, FSA, MAAA  
Consulting Actuary



Paul D. Krueger, JD, EA  
Consulting Actuary

**FAIRMONT POLICEMEN'S RELIEF ASSOCIATION**

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*December 31, 2001 Actuarial Valuation***Summary of Results**

	<u>December 31, 2000</u>	<u>December 31, 2001</u>
<b><i>A. Plan participant data</i></b>		
1. Number of participants		
a. Active employees	0	0
b. Terminated vested employees	0	0
c. Retirees	12	11
d. Spouses and children	3	3
d. Total	15	14
<b><i>B. Amortization payments</i></b>		
1. Unfunded actuarial accrued liability	75,342	612,953
2. Amortization payment	10,095	90,321
<b><i>C. Value of plan assets</i></b>		
	<u>December 31, 2000</u>	<u>December 31, 2001</u>
1. Market value	7,106,264	6,757,468
2. Actuarial value (for calculating contributions)	7,169,851	6,960,424
3. Investment return on actuarial value of assets	7.09%	1.53%
<b><i>D. Benefit liabilities</i></b>		
1. Present value of future benefits	7,245,193	7,573,377
2. Actuarial accrued liability	7,245,193	7,573,377
<b><i>E. Funded status</i></b>		
1. Actuarial value of assets as a % of liabilities	99.0%	91.9%
2. Market value of assets as a % of liabilities	98.1%	89.2%

**FAIRMONT POLICEMEN'S RELIEF ASSOCIATION**

*December 31, 2001 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>
1998	6,947,227	6,058,438	888,789
1999	7,081,591	7,128,750	(47,159)
2000	7,106,264	7,201,645	(95,381)
2001	6,757,468	7,061,902	(304,434)

December 31, 2000    December 31, 2001

**B. Actuarial value of assets**

1. Book value	7,201,645	7,061,902
2. One-third of unrealized gain	(31,794)	(101,478)
3. Actuarial value (1. + 2.)	\$7,169,851	\$6,960,424

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

December 31, 2001 Actuarial Valuation

**Summary of Member Data**

	<u>December 31, 2000</u>	<u>December 31, 2001</u>
<b><u>A. Active members</u></b>		
1. Number		
a. Fully vested	0	0
b. Nonvested	0	0
c. Total	0	0
2. Average age	-	-
3. Average years of service	-	-
4. Total annual payroll for the year beginning on valuation date	-	-
5. Average annual salary	-	-
6. Present value of future salaries	-	-
<b><u>B. Vested terminated members</u></b>		
1. Number	0	0
2. Total annual deferred benefits	\$0	\$0
<b><u>C. Retirees</u></b>		
1. Age & service	12	11
2. Disability	0	0
3. Total	12	11
4. Total annual benefits	\$394,369	\$395,201
5. Average annual benefit	\$32,864	\$35,927
<b><u>D. Beneficiaries</u></b>		
1. Spouses	3	3
2. Children	0	0
3. Total	3	3
4. Total annual benefits	\$61,761	\$67,583
5. Average annual benefit	\$20,587	\$22,528
<b><u>E. Total number of members (A.1. + B.1. + C.3. + D.3.)</u></b>	<b>15</b>	<b>14</b>

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

December 31, 2001 Actuarial Valuation

**Summary of Changes in Membership**

	<u>Actives</u>	<u>Vested Terminees</u>	<u>Retirees</u>	<u>Beneficiaries</u>	<u>Total</u>
<b><u>A. Number of members on December 31, 2000</u></b>	0	0	12	3	15
<b><u>B. Changes in membership</u></b>					
1. Retirements					0
2. Vested terminations					0
3. Deaths			(1)		(1)
4. Expiration of surviving child benefits					0
5. Corrections					0
6. Total changes	0	0	(1)	0	(1)
<b><u>C. Number of members on December 31, 2001</u></b>	0	0	11	3	14



FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

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December 31, 2001 Actuarial Valuation

**Funding Basis**

**Actuarial Values Used to Determine Contribution**

December 31, 2000    December 31, 2001

**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	6,525,388	6,817,754
4. Spouses and children receiving benefits	719,805	755,623
5. Disabled members receiving benefits	0	0
6. Total present value of projected benefits	7,245,193	7,573,377

**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	6,525,388	6,817,754
4. Spouses and children receiving benefits	719,805	755,623
5. Disabled members receiving benefits	0	0
6. Total actuarial accrued liability	7,245,193	7,573,377

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

1. Total actuarial accrued liability (A.7.)	\$7,245,193	\$7,573,377
2. Actuarial value of assets	7,169,851	6,960,424
3. Unfunded actuarial accrued liability (1. - 2.)	75,342	612,953
4. Funded status (2. / 3.)	99.0%	91.9%
5. Years left in amortization period	9	8
6. Amortization payment	10,095	90,321

**D. Normal cost (the cost allocated to the current year)**

1. Present value of future normal costs	\$0	\$0
2. Normal cost as a dollar amount		
a. Total normal cost	0	0
b. Expected member contributions	0	0
c. Employer normal cost (a. - b.)	0	0
3. Payroll for year ending on valuation date	0	0
4. Normal cost as a percent of active payroll		
a. Total normal cost	0.00%	0.00%
b. Expected member contributions	0.00%	0.00%
c. Employer normal cost (a. - b.)	0.00%	0.00%

**E. Key economic assumptions**

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

December 31, 2001 Actuarial Valuation

*Funding Basis***Changes in the Unfunded Actuarial Accrued Liability****A. Expected unfunded actuarial accrued liability**

1. Unfunded actuarial accrued liability (AAL) on December 31, 2000	
a. Actuarial accrued liability	\$7,245,193
b. Actuarial value of assets	<u>7,169,851</u>
c. Unfunded actuarial accrued liability (a. - b.)	75,342
2. Normal cost for the year ending December 31, 2001	0
3. Interest to December 31, 2001 on 1. and 2.	<u>3,767</u>
4. Total of 1., 2. and 3.	79,109
5. Relief Association contributions for year ending December 31, 2001	10,095
6. Interest to December 31, 2001 on 5.	<u>254</u>
7. Total of 5. and 6.	10,349
8. Expected unfunded AAL on December 31, 2001 (4. - 7.)	68,760

**B. Actual unfunded actuarial accrued liability**

1. Actuarial accrued liability	7,573,377
2. Actuarial value of assets	<u>6,960,424</u>
3. Unfunded AAL on December 31, 2001 (1. - 2.)	612,953

**C. Changes in the unfunded actuarial accrued liability**

1. Expected unfunded AAL on December 31, 2001	68,760
2. Changes	
a. Actuarial (gain) or loss	544,193
b. Changes in plan provisions	0
c. Changes in actuarial methods and assumptions	<u>0</u>
d. Total change	544,193
3. Unfunded AAL on December 31, 2001	612,953

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

December 31, 2001 Actuarial Valuation

*Accounting Basis*

**Statement of Plan Net Assets - Market Value**

	<u>December 31, 2000</u>	<u>December 31, 2001</u>
<b><i>A. Assets</i></b>		
1. Cash	\$11,614	\$24,085
2. Short-term investments	0	0
3. Total	11,614	24,085
<b><i>B. Receivables</i></b>		
1. Accrued interest	9,838	7,566
2. Distributions	3,115	989
3. Accrued contributions	0	0
4. Total	12,953	8,555
<b><i>C. Accounts payable</i></b>		
	0	0
<b><i>D. Investments, at fair value</i></b>		
1. Daily passport trust	19,650	81,306
2. Mutual funds	3,157,204	2,943,993
3. Asset and mortgage backed securities	2,784,786	2,575,737
4. Unit trusts	518,704	536,839
5. Corporate bonds	192,874	154,939
6. Government securities	341,702	372,051
7. GNMA mortgage certificate	17,819	10,530
8. Limited partnerships	48,958	49,433
9. Total	7,081,697	6,724,828
<b><i>E. Net assets held in trust for pension benefits</i></b>		
	7,106,264	6,757,468

December 31, 2001 Actuarial Valuation

*Accounting Basis***Statement of Changes in Plan Net Assets**

December 31, 2000    December 31, 2001

***A. Additions***

1. Contributions		
a. Employer	\$7,529	\$10,095
b. Plan members	0	0
c. Total	7,529	10,095
2. Investment income		
a. Interest and dividends	533,767	371,230
b. Partnership income	4,389	4,525
c. Realized gain (loss)	(654)	(60,522)
d. Change in unrealized appreciation (depreciation)	(48,218)	(207,900)
e. Total	489,284	107,333
3. Total additions	496,813	117,428

***B. Deductions***

1. Service pensions	363,649	371,077
2. Survivors pensions	77,378	63,632
3. Distributions to members	11,918	11,918
4. Professional services	10,395	9,875
5. Salaries	2,852	1,841
6. Other expenses	5,948	7,881
7. Total deductions	472,140	466,224

***C. Net increase***

24,673                      (348,796)

***D. Adjustments***

0                                      0

***E. Net assets held in special fund***

1. Beginning of year	\$7,081,591	\$7,106,264
2. End of year	\$7,106,264	\$6,757,468

***F. Investment return***

1. Market value of assets	7.14%	1.56%
2. Actuarial value of assets	7.09%	1.53%

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

December 31, 2001 Actuarial Valuation

*Accounting Basis*

**Schedule of Funding Progress**

*(Dollar amounts in thousands)*

As of December 31:	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
1992	\$4,179	\$5,952	\$1,773	70.2%	\$218	813.3%
1993	4,570	5,781	1,211	79.1%	223	543.0%
1994	4,828	5,987	1,159	80.6%	243	477.0%
1995	5,274	6,066	792	86.9%	200	396.0%
1996	5,808	6,179	371	94.0%	210	176.7%
1997	6,516	6,164	(352)	105.7%	163	-216.0%
1998	6,355	6,835	480	93.0%	118	407.0%
1999	7,113	7,174	61	99.1%	-	-
2000	7,170	7,245	75	99.0%	-	-
2001	6,960	7,573	613	91.9%	-	-

**FAIRMONT POLICEMEN'S RELIEF ASSOCIATION**

*December 31, 2001 Actuarial Valuation*

*Accounting Basis*

**Schedule of Employer Contributions**

<u>Year Ended December 31:</u>	<u>Annual Employer Contributions</u>
1992	\$286,563
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

**FAIRMONT POLICEMEN'S RELIEF ASSOCIATION**

*December 31, 2001 Actuarial Valuation*

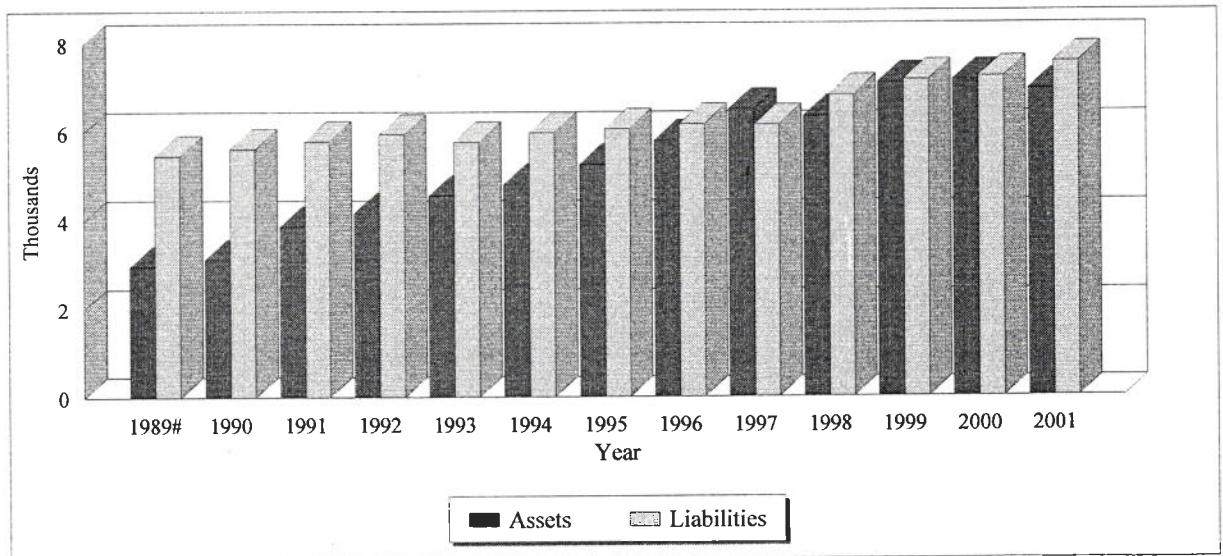
***Historical Tables***

**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>
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	79.1%
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%

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



*December 31, 2001 Actuarial Valuation**Historical Tables*History of Employer Contributions

<u>Valuation December 31:</u>	<u>Normal Cost as a Percent of Payroll</u>	<u>Amortization of Unfunded Actuarial Liability</u>
1989	36.55%	\$195,178
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



**FAIRMONT POLICEMEN'S RELIEF ASSOCIATION***December 31, 2001 Actuarial Valuation**Historical Tables***Comparative Schedule of Active Members**

Valuation December 31:	Number of Active Members	Valuation Payroll	Averages			% Increase
			Age	Service	Pay	
1989	6	\$238,546	44.5	18.8	\$39,758	36.6%
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	-	-	-	-	-

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION  
December 31, 2001 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		
1989	0	0	14	\$245,520	\$3,553,860
1990	0	0	14	252,417	3,526,812
1991	0	0	14	261,491	3,521,472
1992	1	0	15	287,546	3,944,772
1993	0	2	13	250,879	3,611,904
1994	0	1	12	242,682	3,504,876
1995	2	1	13	264,009	3,954,504
1996	0	1	12	262,615	3,848,304
1997	2	1	13	286,633	4,302,888
1998	1	0	14	342,613	5,418,324
1999	2	0	16	444,729	7,174,075
2000	0	1	15	452,326	7,245,193
2001	0	1	14	463,261	7,573,377



**FAIRMONT POLICEMEN'S RELIEF ASSOCIATION***December 31, 2001 Actuarial Valuation***Summary of Plan Provisions**

1. Normal Retirement Benefit  
Members with 20 years of service receive 50% of base pay. Service years in excess of 20 receive an additional 2% of base pay to a maximum of 60% at 25 years. Benefit is payable on retirement after attainment of age 50 and completion of 20 years of service. No credit for service beyond age 55. Base pay is the prevailing pay of a first class patrolman. For members retiring as lieutenants, the retirement is based on lieutenant pay, but not adjusted for base pay increases until it equals base pay of a first class patrolman.
2. Deferred Vested Benefit  
Annual benefit equal to the accrued normal retirement benefit, deferred to age 50 for members with at least 20 years of service.
3. Disability Benefit  
On termination due to disability to the extent of being unable to perform duties of a police officer before becoming eligible for age & service retirement. Benefit amount is 50% of base pay.
4. 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.
5. 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.
6. Member Contributions  
Members are required to contribute 8% of base pay per month until separation from service. Contributions are refundable, without interest, upon termination without benefit eligibility.