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The Report of the  
GAIN/LOSS ANALYSIS OF FINANCIAL EXPERIENCE  
During calendar 1981  
City of St. Cloud  
Fire Department Relief Association  
St. Cloud, Minnesota

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GABRIEL, ROEDER, SMITH & COMPANY

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May 4, 1982

Board of Trustees

City of St. Cloud Fire Department Relief Association

St. Cloud, Minnesota

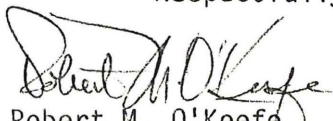
Submitted in this report are the results of the 1981 gain/loss analysis of the financial experiences of the City of St. Cloud Fire Department Relief Association.

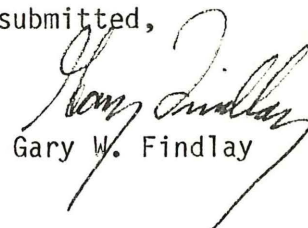
The composite results of this study are reported on Schedule 1, and comments regarding the results are on page 10.

The gain/loss analysis was based upon statistical data furnished by the Association regarding active and retired member changes and related financial transactions.

The actuarial assumptions used for regular valuation purposes and which produce "expected" experience data are shown in the appendix of this report. A brief summary of the Association's benefits is also included in the appendix.

Respectfully submitted,

  
Robert M. O'Keefe

  
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## PURPOSE OF GAIN/LOSS ANALYSIS

Actual financial experience will not coincide exactly with assumed financial experience--differences are to be expected since the future cannot be predicted with absolute precision. The changes in computed liabilities resulting from differences between actual and assumed experiences are called actuarial gains, if the experience was financially favorable and actuarial losses, if the experience was financially unfavorable. Actuarial gains result in decreases in contribution rates and actuarial losses result in increases.

Regular actuarial valuations provide information about aggregate computed liabilities. However, regular valuations do not develop the information needed to explain the year to year changes in computed liabilities attributable to each activity within the retirement system financial mechanism. The purpose of a gain/loss analysis is to determine the change in computed liabilities and contribution rates attributable to variations between actual and assumed experience.

Once a difference between actual and assumed experience in a risk area has been observed to be sizeable and persistent, the assumed experience should be changed to reflect the observed reality. However, gains and losses over a relatively short period of time may not be indicative of long term trends which provide the basis for selection of actuarial assumptions.

## ACTIVITY WHICH RESULTS IN GAINS OR LOSSES

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### Age & Service Retirement.

If members retire at older ages than assumed, there is a gain. If retirements occur at younger ages than assumed there is a loss.

### Disability & Death-in-Service.

If casualty claims are less than assumed, there is a gain. If there are more casualty losses than assumed, there is a loss.

### Withdrawal.

If more liabilities are released by withdrawal than assumed, there is a gain. If there are fewer withdrawals than assumed, there is a loss.

### Salary Increases.

If there are smaller salary increases than assumed, there is a gain. If salary increases are greater than assumed, there is a loss.

### Investment Income.

If there is greater investment income than assumed, there is a gain. If investment income is less than assumed, there is a loss.

### Post Retirement Mortality.

If benefit recipients die at younger ages than assumed, there is a gain. If they live longer than assumed, there is a loss.

### Contribution.

Gains or losses arise due to the delay in implementing changes in the recommended contribution.

### Miscellaneous.

Miscellaneous gains and losses include changes due to data adjustments, rounding and changes in the average age and service characteristics of the group.



City of St. Cloud Fire Department Relief Association

Schedule 1.

Gains & Losses in Accrued Liabilities  
and Changes in Contribution Requirements  
During Calendar 1981

<u>Type of Activity</u>	<u>Accrued Liabilities (Gain) or Loss *</u>		<u>Contribution Requirements (Gain) or Loss *</u>	
	<u>Active Members</u>	<u>Retirants &amp; Beneficiaries</u>	<u>Normal Cost % of Payroll</u>	<u>\$ Payment on UAL</u>
	(\$ in 1,000)			(\$ in 1,000)
<u>Age &amp; Service Retirements</u>	\$131.4	\$ N/A	0.04%	\$ 8.6
<u>Disability &amp; Death-in-Service</u>				
a. <u>Disability</u>	(15.0)	N/A	0.02	(1.0)
b. <u>Death-in Service</u>	(10.9)	N/A	0.01	(0.7)
<u>Withdrawal</u>	9.6	N/A	(0.01)	0.6
<u>Salary Increases</u>	105.5	120.3	N/A	14.8
<u>Investment Income</u>	(28.4)	(52.6)	N/A	(5.3)
<u>Post Retirement Mortality</u>	N/A	53.0	N/A	3.5
<u>Contribution</u>	(0.1)	41.1	N/A	2.7
<u>Miscellaneous</u>	5.4	4.5	0.01	0.6
EXPERIENCE RELATED (GAIN)/LOSS & CORRESPONDING CHANGE IN CONTRIBUTION REQUIREMENTS	\$197.5	\$166.3	0.07%	\$23.8
<u>Changes due to plan amendments</u>	<u>0.0</u>	<u>0.0</u>	<u>0.00</u>	<u>0.0</u>
TOTAL (GAIN)/LOSS DURING YEAR	\$197.5	\$166.3	0.07%	\$23.8

\* Accrued liabilities and contribution requirements are affected by gains and losses.  
Gains result in reductions in both and losses result in increases in both.

## City of St. Cloud Fire Department Relief Association

Schedule 2.Gains & Losses in Accrued Liabilities  
From January 1, 1979 thru December 31, 1981

<u>Type of Activity</u>	<u>1/1/79 - 12/31/79</u>		<u>1/1/80 - 12/31/80</u>		<u>1/1/81 - 12/31/81</u>	
	<u>Accrued Liabilities</u>		<u>Accrued Liabilities</u>		<u>Accrued Liabilities</u>	
	<u>(Gain) or Loss</u>		<u>(Gain) or Loss</u>		<u>(Gain) or Loss</u>	
	<u>Active</u>	<u>Retirants &amp;</u>	<u>Active</u>	<u>Retirants &amp;</u>	<u>Active</u>	<u>Retirants &amp;</u>
	<u>Members</u>	<u>Beneficiaries</u>	<u>Members</u>	<u>Beneficiaries</u>	<u>Members</u>	<u>Beneficiaries</u>
	<u>(\$ in 1,000)</u>		<u>(\$ in 1,000)</u>		<u>(\$ in 1,000)</u>	
<u>Age &amp; Service Retirements</u>	\$ 0	\$ N/A	\$101.0	\$ N/A	\$131.4	\$ N/A
<u>Disability &amp; Death-in-Service</u>						
a. <u>Disability</u>	(12.0)	N/A	(11.0)	N/A	(15.0)	N/A
b. <u>Death-in Service</u>	(36.0)	N/A	(39.0)	N/A	(10.9)	N/A
<u>Withdrawal</u>	(8.0)	N/A	6.0	N/A	9.6	N/A
<u>Salary Increases</u>	104.0	117.0	114.0	129.0	105.5	120.3
<u>Investment Income</u>	(1.0)	(1.0)	(2.0)	(1.0)	(28.4)	(52.6)
<u>Post Retirement Mortality</u>	N/A	37.0	N/A	49.0	N/A	53.0
<u>Contribution</u>	24.0	33.0	(11.0)	(18.0)	(0.1)	41.1
<u>Miscellaneous</u>	<u>11.0</u>	<u>472.0</u>	<u>(15.0)</u>	<u>(15.0)</u>	<u>5.4</u>	<u>4.5</u>
EXPERIENCE RELATED (GAIN)/LOSS	\$ 82.0	\$658.0	\$143.0	\$144.0	\$197.5	\$166.3
Method Change for Casualty Cost			208.0			
<u>Changes Due to Plan Amendments</u>	<u>0.0</u>	<u>0.0</u>	<u>77.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
TOTAL (GAIN)/LOSS DURING 3 YEAR PERIOD	<u>\$ 82.0</u>	<u>\$658.0</u>	<u>\$428.0</u>	<u>\$144.0</u>	<u>\$197.5</u>	<u>\$166.3</u>

City of St. Cloud Fire Department Relief Association

Schedule 3.

Employees Active at Both Beginning & End of 1981

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<u>Age Group Beg. Year</u>	<u>No.</u>	<u>Beginning Salary</u>	<u>Ending Salary</u>	<u>% Increase In Salary</u>
30-34	7	\$132,216	\$141,876	7.3%
35-39	5	94,440	101,340	7.3
40-44	9	169,992	182,412	7.3
45-49	4	75,552	81,072	7.3
50-54	5	94,440	101,340	7.3
55-59	<u>5</u>	<u>94,440</u>	<u>101,340</u>	7.3
TOTALS	35	\$661,080	\$709,380	7.3

Employees Active at Either Beginning or End of 1981

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<u>Years Service</u>	<u>Beginning of Year</u>	<u>End of Year</u>
0	0	0
1	0	0
2	0	0
3	0	0
4	0	0
5 or more	36	35

Average Age: 44.1 years.

Average Service: 18.1 years.



City of St. Cloud Fire Department Relief Association

Schedule 4.

Separations From Active Service (Other Than Age & Service Retirement)  
During 1981

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<u>Age at Termination</u>	<u>Withdrawal</u>		<u>Disability</u>		<u>Death</u>	
	<u>Actual</u>	<u>Expected</u>	<u>Actual</u>	<u>Expected</u>	<u>Actual</u>	<u>Expected</u>
30-34		0.1		*		*
35-39		0.1		*		0.1
40-44		0.1		*		0.1
45-49				*		*
50-54	—	—	—	<u>0.1</u>	—	<u>*</u>
TOTALS	0	0.3	0	0.1	0	0.2

\* Less than 0.1%

<u>Years Service at Termination</u>	<u>Actual</u>	<u>Expected</u>
0	0	0
1	0	0
2	0	0
3	0	0
4	0	0
5 or more	<u>0</u>	<u>0.3</u>
TOTALS	0	0.3

Average age at separation: N/A years.

Average service at separation: N/A years.

City of St. Cloud Fire Department Relief Association

Schedule 5.

Separations From Active Service  
For Age & Service Retirement

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Age at Termination	1979		1980		1981	
	<u>Actual</u>	<u>Expected</u>	<u>Actual</u>	<u>Expected</u>	<u>Actual</u>	<u>Expected</u>
50			1			
52	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>—</u>
TOTALS	0	0	1	0	1	0

Average age at retirement during period examined was 51.0 years.

Average service at retirement during period examined was 25.4 years.

City of St. Cloud Fire Department Relief Association

Schedule 6.

Death After Retirement  
(Disability and Service Retirants)

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<u>Age at Death</u>	<u>1979</u>		<u>1980</u>		<u>1981</u>	
	<u>Actual</u>	<u>Expected</u>	<u>Actual</u>	<u>Expected</u>	<u>Actual</u>	<u>Expected</u>
45-49		.0081				
50-54		.0212		.0323		.0312
55-59		.1161		.1046		.1067
60-64		.0497		.0757		.0713
65-69						.0327
75-79		.0863		.0939		
80-84						.1026
85-89		.2104				
90-94	<u>—</u>	<u>—</u>	<u>—</u>	<u>.2274</u>	<u>—</u>	<u>.2444</u>
TOTALS	0	.4918	0	.5339	0	.5889

## 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 accrued liability by December 31, 2010.

Over the past few years, both the actual rates of salary increase and investment return have generally exceeded the assumed rates, resulting in increases in the dollar amount of unfunded accrued liabilities. If the financial experiences of recent years persist, and the economic assumptions and financing method are not changed, it is reasonable to expect that unfunded accrued liabilities will increase in actual dollar amount for a number of years. This is true even though a level dollar amortization schedule is being followed. Accordingly, it is reasonable to expect that under the described conditions the actual dollar contributions required to make amortization payments will increase for a number of years. On the other hand, if inflation subsides and actual economic activity approaches assumed experience, it is reasonable to expect the dollar amount of the contribution to amortize the unfunded accrued liability to remain relatively constant. The notion that amortization dollar amounts may be increasing is not necessarily cause for alarm. If adjusted for changes in purchasing power, any future increases in the dollar contributions may or may not reflect increases in terms of real dollars (inflation adjusted dollars).

It is also worth noting that when the same assumptions and methods are applied to plans which differ in nature, the valuation results may not be comparable (for example, it is currently not valid to compare valuation results for a plan having full escalation to valuation results for a plan having a 3 1/2% cap on escalation.) 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.

## APPENDICES



# City of St. Cloud Fire Department Relief Association

## Valuation Methods and Assumptions

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The Entry Age Normal Cost method was used to determine the normal cost of all benefits.

The rate of investment return (interest) used in making the valuation was 5.0 percent per annum, compounded annually. State law requires use of this assumption.

The mortality table used was the United States Life Table, 1959-61, White Males and White Females.

Sample Ages	Single Life Values: Present Value of \$1 Monthly				Future Life Expectancy (Years)	
	Level		Increasing			
	For Life		3.5% Yearly		Men	Women
	Men	Women	Men	Women		
45	\$169.61	\$186.84	\$263.23	\$304.86	27.33	32.52
50	154.85	174.20	229.51	270.80	23.22	28.08
55	139.29	159.62	197.24	236.11	19.45	23.81
60	122.79	142.73	166.26	200.76	16.01	19.69
65	106.31	124.22	137.82	166.16	12.97	15.88
70	89.86	104.31	111.71	132.82	10.29	12.38
75	73.39	83.92	87.66	101.94	7.92	9.28
80	57.54	64.24	66.29	74.77	5.89	6.67

Age & service retirement was assumed to occur at age 62, or attained age if older.

Sample Rates of Separation From Active Employment Before Retirement, Death or Disability

Sample Ages	% of Active Members Separating Within Next Year
20	3.00%
25	2.50
30	2.00
35	1.50
40	1.00
45	0.50
50+	0.00

Pay Adjustment Factor used to Project Current Pays

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<u>Sample Ages</u>	<u>Present Pay Resulting in Pay of \$1,000 at Age 60</u>	<u>Percent Increase in Pay During Next Year</u>
20	\$ 253	3.5%
25	300	3.5
30	356	3.5
35	423	3.5
40	503	3.5
45	597	3.5
50	709	3.5
55	842	3.5
60	1,000	3.5

Use of the pay adjustment factor illustrated above is required by state law.

Disability retirements were assumed to occur as indicated below:

<u>Sample Ages</u>	<u>% of Active Members Becoming Disabled Within Next Year</u>
20	0.08%
25	0.08
30	0.08
35	0.08
40	0.20
45	0.26
50	0.49
55	0.89

St. Cloud Fire Department Relief Association

Brief Summary (12/31/81) of Benefit Provisions Evaluated and/or Considered

Age & Service Retirement

Eligibility. 20 years of service and 50 years of age.

Amount. For first 20 years of service, 35/75 of base pay. For each year of service in excess of 20 an additional 1/75 is added up to a maximum of 42/75 of base pay for 27 or more years of service.

Pay Used For Plan Purposes. "Base pay" means salary of a first grade fireman.

Disability Retirement.

Eligibility. Permanently disabled to the extent that unable to perform duties of fireman before being eligible for age & service retirement.

Amount. 36/75 of base pay.

Member's Death While Active, Or In Deferred Status, Or Retired

Eligibility.

Spouse. Legally married to member at least one year before separation from service and residing with member at time of death. Benefits terminate upon remarriage.

Child. Younger than age 18.

Amount.

Spouse. 24/75 of base pay.

Child. 4/75 of base pay per child. Children's maximum is 12/75 if spouse is receiving or 36/75 if no spouse is receiving.

Vested Deferred. 20 years of service and separated before age 50. Maximum benefit is 40/75 of base pay. Payment beginning is deferred to attainment of age 50.

Post Retirement Adjustments ("Escalator"). Each time base pay is changed, payments to all benefits recipients are simultaneously changed by the same percent that base pay is changed.

Member Contributions. 8% of base pay. Total member contributions are refundable without interest if no monthly benefit is payable upon separation from service.

Medical and Dental Insurance. Family or individual medical insurance premium is paid for retired members up to such time members and spouse or dependant no longer request coverage. Premiums for family coverages are as follows: Medical - \$145.92 per month; Dental - \$28.10 per month.

Lump Sum Payment At Retirement. Members eligible for age & service retirement will receive a lump sum payment of \$9,900 upon retirement.