

The Report of the
GAIN/LOSS ANALYSIS OF FINANCIAL EXPERIENCE
During calendar 1979 and 1980
CITY OF HIBBING
FIREMEN'S RELIEF ASSOCIATION
Hibbing, Minnesota

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GABRIEL, ROEDER, SMITH & COMPANY

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GABRIEL, ROEDER, SMITH & COMPANY
ACTUARIES & CONSULTANTS

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City of Hibbing
Firemen's Relief Association
Hibbing, Minnesota

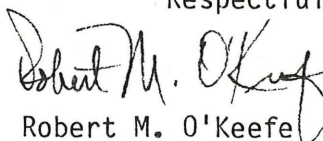
Submitted in this report are the results of the 1979-80 gain/loss analysis of the financial experiences of the Hibbing Firemen's Relief Association.

The composite results of this study are reported on Schedules 1(A) and 1(B) and comments regarding the results are on page 12.

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.

Respectfully submitted,


Robert M. O'Keefe


Gary W. Findlay

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

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.

HIBBING FIREMEN'S RELIEF ASSOCIATION

Schedule 1(A)

Gains & Losses in Accrued Liabilities
and Changes in Contribution Requirements
During Calendar 1979

<u>Type of Activity</u>	<u>Accrued Liabilities (Gain) or Loss</u>		<u>Contribution Requirements (Gain) or Loss</u>	
	<u>Active Members</u> (\$ in 1,000)	<u>Retirants & Beneficiaries</u> (\$ in 1,000)	<u>Normal Cost % of Payroll</u> (\$ in 1,000)	<u>\$ Payment on UAL</u> (\$ in 1,000)
<u>Age & Service Retirements</u>	\$ 68.6	\$ N/A	N/A	\$3.3
<u>Disability & Death-in-Service</u>				
a. <u>Disability</u>	(6.5)	N/A		(0.3)
b. <u>Death-in Service</u>	4.3	N/A		0.2
<u>Withdrawal</u>	0.9	N/A		0.0
<u>Salary Increases</u>	135.8	0.0		6.7
<u>Investment Income</u>	(8.1)	(9.5)		(0.9)
<u>Post Retirement Mortality</u>	N/A	34.7	N/A	1.7
<u>Contributions</u>	5.8	7.1		0.6
<u>Miscellaneous</u>	<u>(44.0)</u>	<u>(0.8)</u>	—	<u>(2.1)</u>
EXPERIENCE RELATED (GAIN)/LOSS & CORRESPONDING CHANGE IN CONTRIBUTION REQUIREMENTS	\$156.8	\$31.5	N/A	\$9.2
<u>Changes due to plan amendments</u>	—	—	—	—
TOTAL (GAIN)/LOSS DURING YEAR	<u>\$156.8</u>	<u>\$31.5</u>	<u>N/A</u>	<u>\$9.2</u>

HIBBING FIREMEN'S RELIEF ASSOCIATION

Schedule 1(B)

Gains & Losses in Accrued Liabilities
and Changes in Contribution Requirements
During Calendar 1980

<u>Type of Activity</u>	<u>Accrued Liabilities</u> <u>(Gain) or Loss</u>		<u>Contribution Requirements</u> <u>(Gain) or Loss</u>	
	<u>Active</u> <u>Members</u> (\$ in 1,000)	<u>Retirants &</u> <u>Beneficiaries</u> (\$ in 1,000)	<u>Normal Cost</u> <u>% of Payroll</u> (\$ in 1,000)	<u>\$ Payment</u> <u>on UAL</u> (\$ in 1,000)
<u>Age & Service Retirements</u>	\$ 0	\$ N/A	(0.07)%	\$ 0.0
<u>Disability & Death-in-Service</u>				
a. <u>Disability</u>	(7.5)	N/A	0.10	(0.4)
b. <u>Death-in Service</u>	3.7	N/A	(0.47)	0.2
<u>Withdrawal</u>	(1.1)	N/A	0.24	0.1
<u>Salary Increases</u>	67.1	12.4		3.9
<u>Investment Income</u>	(7.5)	(12.4)		(1.0)
<u>Post Retirement Mortality</u>	N/A	(27.7)	N/A	(1.4)
<u>Contributions</u>	2.9	3.5		0.3
<u>Miscellaneous</u>	<u>(4.1)</u>	<u>(2.7)</u>	_____	<u>(0.4)</u>
EXPERIENCE RELATED (GAIN)/LOSS & CORRESPONDING CHANGE IN CONTRIBUTION REQUIREMENTS	\$ 53.5	\$(26.9)	(0.20)%	\$ 1.3
<u>Conversion to UAL Amortization</u>			N/A	20.2
<u>Change in Funding Method For</u> <u>Death & Disability</u>	(102.6)	N/A	(1.40)	(5.0)
<u>Changes due to plan amendments</u>	<u>59.4</u>	_____	<u>0.48</u>	<u>2.9</u>
TOTAL (GAIN)/LOSS DURING YEAR	\$ <u>10.3</u>	\$ <u>(26.9)</u>	<u>(1.12)%</u>	<u>\$19.4</u>

HIBBING FIREMEN'S RELIEF ASSOCIATION

Schedule 2(A)

Employees Active at Both Beginning & End of 1979

<u>Age Group Beg. Year</u>	<u>No.</u>	<u>Beginning Salary</u>	<u>Ending Salary</u>	<u>% Increase In Salary</u>
25-29	7	\$ 85,496	\$104,172	21.8%
30-34	3	36,641	44,784	22.2
35-39	6	76,719	92,532	20.6
40-44	1	12,888	15,408	19.6
45-49	9	122,829	147,756	20.3
50-54	<u>6</u>	<u>88,736</u>	<u>104,478</u>	17.7
TOTALS	32	\$423,309	\$509,130	20.3%

Employees Active at Either Beginning or End of 1979

<u>Years Service</u>	<u>Beginning of Year</u>	<u>End of Year</u>
0	1	1
1	1	1
2	4	1
3	2	4
4	0	2
5 or more	27	25

Average Age: 40.6 years.

Average Service: 13.6 years.

HIBBING FIREMEN'S RELIEF ASSOCIATION

Schedule 2(B)

Employees Active at Both Beginning & End of 1980

<u>Age Group Beg. Year</u>	<u>No.</u>	<u>Beginning Salary</u>	<u>Ending Salary</u>	<u>% Increase In Salary</u>
25-29	6	\$ 88,884	\$ 96,898	9.0%
30-34	5	74,952	81,665	9.0
35-39	5	77,004	84,359	9.6
40-44	2	30,936	33,708	9.0
45-49	6	97,812	106,398	8.8
50-54	<u>9</u>	<u>154,422</u>	<u>169,884</u>	10.0
TOTALS	33	\$524,010	\$572,912	9.3%

Employees Active at Either Beginning or End of 1980

<u>Years Service</u>	<u>Beginning of Year</u>	<u>End of Year</u>
0	1	0
1	1	3
2	1	1
3	4	1
4	2	4
5 or more	25	26

Average Age: 41.0 years.

Average Service: 14.2 years.

HIBBING FIREMEN'S RELIEF ASSOCIATION

Schedule 3(A)

Separations From Active Service (Other Than Age & Service Retirement)
During 1979

<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>
25-29	1	0.2		*		*
30-34		0.1		*		*
35-39		*		*		*
40-44				*		*
45-49				0.1		0.1
50-54						0.1
TOTALS	1	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		
1	1	
2		0.1
3		
4		
5 or more		0.2
TOTALS	1	0.3

Average age at separation: 26.0 years.

Average service at separation: 0.7 years.

HIBBING FIREMEN'S RELIEF ASSOCIATION

Schedule 3(B)

Separations From Active Service (Other Than Age & Service Retirement)
During 1980

<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>
25-29	1	0.1		*		*
30-34		0.1		*		*
35-39		0.1		*		*
40-44		*		*		*
45-49		*		*		0.1
50-54	—	—	—	<u>0.1</u>	—	<u>0.1</u>
TOTALS	1	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		
1		
2		
3		0.1
4	1	
5 or more	—	<u>0.2</u>
TOTALS	1	0.3

Average age at separation: 29.0 years.

Average service at separation: 4.0 years.

HIBBING FIREMEN'S RELIEF ASSOCIATION

Schedule 4

Separations From Active Service
For Age & Service Retirement

<u>Age at Termination</u>	<u>1979</u>		<u>1980</u>	
	<u>Actual</u>	<u>Expected</u>	<u>Actual</u>	<u>Expected</u>
55	1			
59	<u>1</u>	<u> </u>	<u> </u>	<u> </u>
TOTALS	2	0.0	0	0.0

Average age at retirement during period examined: 57.5 years.

Average service at retirement during period examined: 27.1 years.

HIBBING FIREMEN'S RELIEF ASSOCIATION

Schedule 5

Death After Retirement
(Disability and Service Retirants)

<u>Age at Death</u>	<u>1979</u>		<u>1980</u>	
	<u>Actual</u>	<u>Expected</u>	<u>Actual</u>	<u>Expected</u>
45-49		0.0081		
50-54				0.0091
55-59		0.0482		0.0306
60-64				0.0217
75-79		0.3353		0.1598
80-84		0.3702	1	0.4627
85-89	<u>—</u>	<u>0.3741</u>	<u>1</u>	<u>0.1943</u>
TOTALS	0	1.1359	2	0.8782

Average age at death: 86.5 years.

Comments

The miscellaneous gain under Active Members for 1979 is attributable to the financial information provided. The flow of funds from 1978 to 1979 was not consistent with the statement of assets as of 12/31/79. This difference was \$39,969.

APPENDICES

HIBBING FIREMEN'S RELIEF ASSOCIATION

Valuation Methods and Assumptions

The Entry Age Normal Cost method was used to determine the normal cost of all benefits. Disability and death before retirement benefits were valued in previous valuations on a terminal funding basis (one year term cost).

The rate of investment return (interest) used in making the valuation was 5.0 percent per annum, compounded annually.

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 For Life		Increasing 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

Sample Pay Adjustment Factors used to Project Current Pays

<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

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

Hibbing Firemen's Relief Association

Brief Summary (12/31/80) of Benefit Provisions Evaluated and/or Considered

Age & Service Retirement

Eligibility. 20 years of service and 55 years of age.

Amount. 53% of average monthly salary during last 6 months of employment.

For each year in excess of 20 years an additional annual benefit of \$120 is added with the maximum additional annual amount being \$600.

Disability Retirement

Eligibility.

First Class Disability. Total disability.

Second Class Disability. Less than total but more than 50% disabled.

Third Class Disability. Less than 50% disabled but unable to perform duties of a fireman.

Amount.

First Class Disability. An amount equal to what would be paid under state worker's compensation laws.

Second Class Disability. 75% of first class disability benefits.

Third Class Disability. 50% of first class disability benefits.

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

Eligibility.

Spouse. Legally married to member at least 3 years prior to separation from service and residing with member at time of death. Benefits terminate upon remarriage.

Child. Younger than age 18.

Amount.

Spouse. \$1,800 per year.

Child. \$300 per child per year.

Maximum Family Benefit. \$2,160 per year.

Funeral Expenses. Lump sum payment of \$300 at time of death of active or retired member.

Vested Deferred. 20 years of service and separated before age 55. Payment beginning is deferred to attainment of age 55.

Post Retirement Adjustments ("Escalator"). Age & service benefits are increased by 50% of increases in salary of active firemen holding rank that member held before retirement.

Member Contributions. 8% of salary. Member contributions are refundable, without interest, if no monthly benefit is payable upon separation from service.