Mankato
Fire Department Relief Association

Annual Actuarial Valuation

December 31, 1988

Gabriel, Roeder, Smith & Company
Actuaries and Consultants

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GABRIEL, ROEDER, SMITH & COMPANY
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June 26, 1989

Board of Trustees
Mankato Fire Department Relief Association
Mankato, Minnesota

Submitted in this report are the results of the December 31, 1988 actuarial valuation of the assets, actuarial values and contribution requirements associated with the benefits provided by the Mankato Fire Department Relief Association.

The valuation results contained in Section A provide the actuarial information needed to determine the employer's "minimum obligation" effective January 1, 1990. 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.

Change in Actuarial Assumptions

The December 31, 1988 actuarial valuation reflects a change in the assumed retirement age from age 62 to age 57 to move assumed experience closer to actual recent experience.

The effect of this change was to increase normal cost 6.42% of payroll, increase the amortization payment $33,389 and increase the unfunded actuarial accrued liabilities $438,696.

Mankato Fire Department Relief Association

CONTRIBUTION RATE TO PROVIDE BENEFITS

Member portion & Employer portion
Effective January 1, 1990

Contributions for	If Paid Equally Throughout Year Normal Cost % of Active Payroll for 1990	+	UAAL Dollars
Normal cost of annuities:			
Age & service: to members	17.09%		
Age & service: to survivors	3.81		
Disability	2.92		
Death before retirement	2.49		
Refunds of member contributions	0.42		
Total Normal Cost	26.73%		
Amortization of unfunded actuarial accrued liabilities (UAAL) (21 year level dollar payment)			
Retired lives			$389,639
Active members			96,657
Total			486,296
Total Cost of Benefits	26.73%	+	$486,296
Member contributions	11.65%		
COMPUTED EMPLOYER RATE:			
(a) If Paid Equally Throughout Year	15.08%	+	$486,296
(b) IF PAID AT CALENDAR YEAR END	15.45%	+	$498,305

Mankato Fire Department Relief Association

Present Actuarial Condition

The Association's accrued actuarial assets were in excess of $2.4 million on December 31, 1988 -- 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 $2.4 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.

	Accrued Actuarial Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities	% Funded
Retirants and Beneficiaries				
Retired Members (31)		$6,243,324		
Surviving Spouses (10)		768,024		
Surviving Children (0)		0		
Total (41)	$2,103,467	$7,011,348	$4,907,881	30.0%
Deferred Members (1)	90,698	302,316	211,618	30.0
Active Members (8)	268,767	1,538,749	1,269,982	17.5
Total	$2,462,932	$8,852,413	$6,389,481	27.8%

Actuarial accrued liabilities represent the value, computed as of December 31, 1988 of:

(i) retirement allowances likely to be paid the 41 retirants and beneficiaries; and

(ii) the contributions assumed to have been made for the 8 active members from entry into the plan until December 31, 1988.

The value of retirement allowances likely to be paid the 41 retirants and beneficiaries, discounted for investment earnings and mortality, was computed to be $7,011,348 as of December 31, 1988. To put this amount in perspective, the $7,011,348, together with investment earnings, will just be sufficient to pay the 41 retirants and beneficiaries their allowances for their remaining lifetimes. This assumes the 41 retirants and beneficiaries live and die according to the assumed mortality and the $7,011,348 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 $1,538,749 represents the amount that would have been accumulated by December 31, 1988. 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, 1988 for the 8 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 31	Actuarial Accrued Liabilities	Accrued Actuarial Assets	% Funded
1979	$ N/A	$ N/A	N/A%
1980	4,294	791	18.4
1981	5,547	930	16.8
1982	5,876	1,107	18.8
1983	6,217	1,341	21.6
1983*	6,667	1,341	20.1
1984	7,018	1,552	22.1
1985	7,369	1,825	24.8
1986	8,180	2,028	24.8
1987	8,699	2,212	25.4
1988	8,414	2,463	29.3
1988*	8,852	2,463	27.8

* After change in assumptions.

Mankato Fire Department Relief Association

Computed Contributions - Comparative Schedule

Year Ended December 31		Total Normal Cost as a Percent of	Contribution For Unfunded Actuarial Accrued Liabilities
Valuation	Fiscal	Valuation Payroll*	$ or %
1980	1982	19.41%	$225,721
1981	1983	19.08	302,407
1982	1984	19.02	317,780
1983	1985	19.00	330,981
1983	1985**	20.23	361,515
1984	1986	20.44	378,439
1985	1987	19.93	392,021
1986	1988	20.20	445,082
1987	1989	20.28	480,918
1988	1990	20.31	452,907
1988	1990**	26.73	486,296

* Includes employee contributions.

** After change in assumptions.

Mankato Fire Department Relief Association

CONTRIBUTION FOR CALENDAR YEAR EFFECTIVE JANUARY 1, 1990

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 1990		$_____	
(2)	Total normal cost % from page A-2		26.73%	
(3)	Total normal cost (Line 1 times line 2)			$_____
(4)	_____ x 1.035 1988 Administrative expenses paid from the Special Fund			_____
(5)	Amortization payment on UAAL from page A-2			486,296
(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 $2,742,210	$41,270		
	(b) State amortization aid based on 1984 legislation	8,564		
	(c) Total State amortization aid		49,834	
(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

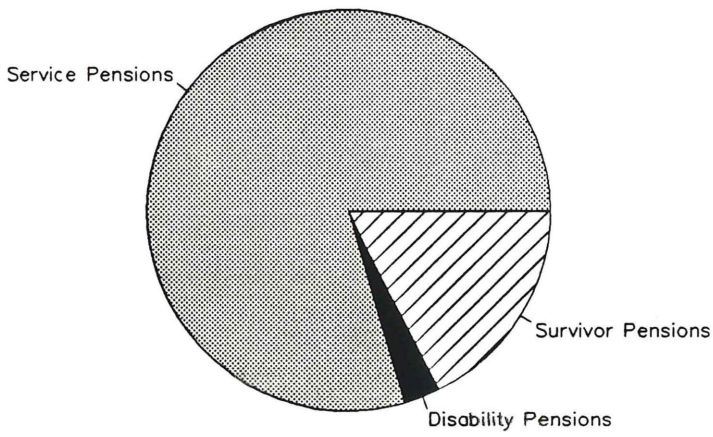
Valuation Data and Summary of Benefit Provisions

Mankato Fire Department Relief Association

Retirants and Beneficiaries December 31, 1988

By Type of Annuity Being Paid

Type of Annuity Being Paid	No.	Monthly Amounts	Computed Actuarial Accrued Liabilities
Retirants receiving:			
Age & Service	30	$30,875.00	$5,871,516
Disability	1	1,136.00	371,808
Totals	31	32,011.00	6,243,324
Beneficiaries receiving:			
Spouse	10	6,816.00	768,024
Child	0	0.00	0
Totals	10	6,816.00	768,024
Totals	41	$38,827.00	$7,011,348



Monthly Amount Paid by Benefit

Mankato Fire Department Relief Association

Inactive Members Eligible for Deferred Benefits

December 31, 1988

No.	Monthly Amount	Computed Actuarial Accrued Liabilities
1	$1,136.00	$302,316

Mankato Fire Department Relief Association

Retirants and Beneficiaries December 31, 1988

By Attained Ages

Attained Ages	Number		
	Age & Service	Disability	Death Before Retirement
40-44		1	
50-54	6		
55-59	9		
60-64	2		
65-69	1		
70-74	4		
75-79	8		1
80-84	8		
90-94	1	—	—
Totals	39	1	1

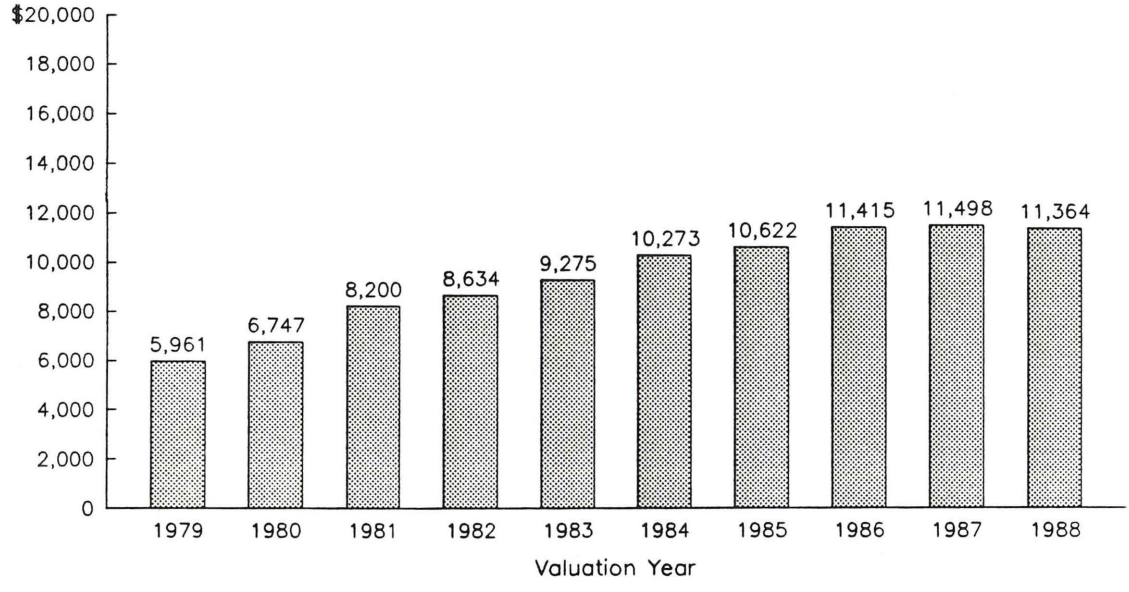
Mankato Fire Department Relief Association

Retirants and Beneficiaries Added to and Removed from Rolls

Comparative Statement

Valuation Date December 31	No. Added to Rolls	No. Removed from Rolls	Rolls End of Year		Discounted Value of Total Allowances
			No.	Annual Allowances	
1979	4	1	29	$172,873	$2,203,721
1980	0	1	28	188,920	2,315,875
1981	5	1	32	262,415	3,678,849
1982	2	0	34	293,559	4,123,990
1983	1	2	33	306,065	4,525,762
1984	2	2	33	339,004	4,959,983
1985	1		34	361,145	5,158,308
1986	4	0	38	433,768	6,380,628
1987	7	4	41	471,437	7,363,104
1988	1	1	41	465,924	7,011,348

Average Annual Allowances



Mankato Fire Department Relief Association

Active Members December 31, 1988

By Attained Age and Years of Service

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
40-44					1			1	$ 27,264
45-49					3			3	81,792
50-54					2	1		3	81,792
55-59							1	1	27,264
Totals					6	1	1	8	$218,112

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age: 49.4 years.

Service: 23.4 years.

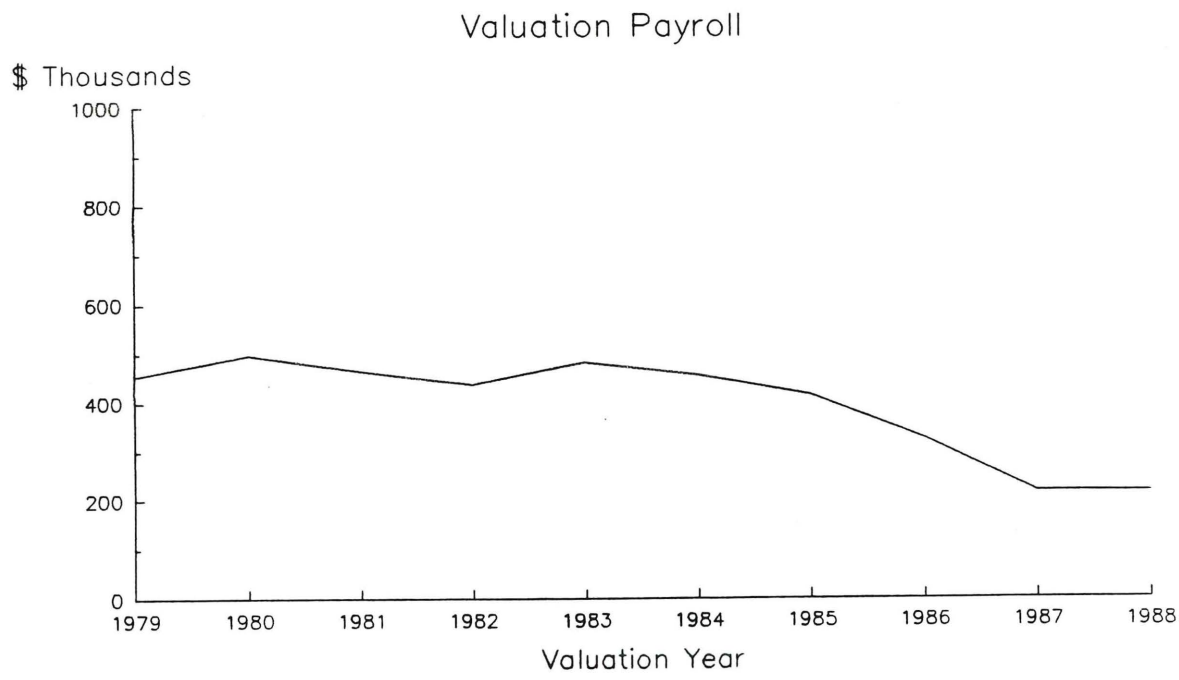
Annual Pay: $27,264.

Mankato Fire Department Relief Association

Comparative Schedule

Of Active Members

Valuation Date December 31	Active Members	Valuation Payroll	Average Age	Average Service	Average Pay	% Incr.
1979	27	$454,572	45.1 yrs.	18.6 yrs.	$16,836	7.0%
1980	27	497,664	46.1	19.6	18,432	9.5
1981	22	464,376	46.1	20.2	21,108	14.5
1982	20	436,800	46.3	20.4	21,840	3.5
1983	20	481,680	47.3	21.4	24,084	10.3
1984	18	455,112	46.9	21.0	25,284	5.0
1985	16	415,488	47.6	22.0	25,968	2.7
1986	12	327,168	47.3	21.3	27,264	5.0
1987	8	218,112	48.4	22.4	27,264	-
1988	8	218,112	49.4	23.4	27,264	-



Mankato Fire Department Relief Association

Brief Summary (12/31/88) of Benefit Provisions Evaluated and/or Considered

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Age & Service Retirement

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

Amount.

Full-Time Firemen. For first 20 years of service, 50% of base pay of a first class fireman. For service in excess of 20 years, an additional $30 per year is added up to a maximum of an additional $300 per year.

Call Firemen. $102 per year.

Disability Retirement

Eligibility. Disabled from occupational causes to the extent that no longer able to perform the duties of a fireman before being eligible for regular retirement.

Amount. Full-time and call firemen - 50% of base pay of a first class fireman.

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

Eligibility.

Spouse. Legally married to member at separation from service and residing with member at time of death. (For call firemen, benefit is payable only in the event of a duty related death.)

Child. Younger than age 18.

Amount.

Full-Time.

Spouse. 60% of basic pension due member.

Child. 12-1/2% of basic pension due member per child.

Maximum Family Benefit. 80% of basic pension due member.

Call Firemen.

Spouse. 50% of earned pension due member.

Funeral Expense Payment. $500 for full-time firemen.

Vested Deferred. 20 years of service and separated before age 50. Payment beginning is deferred to attainment of age 50.

Post-Retirement Adjustments ("Escalator"). Each time the pay of first class firemen is changed, the following benefits are changed by the same percent the first class firemen's pay is changed: Full-time firemen's benefits for the first 20 years of service; disability benefits for both full-time and call firemen; and benefits for the surviving spouse and dependent children of full-time firemen.

Member Contributions. 11.65% of pay of first class firemen. (Currently, 11.65% of pay less than or equal to the Social Security taxable wage base in addition to 4% of pay exceeding the Social Security taxable wage base. The 1989 Social Security tax rate of 7.65% was utilized to project the contribution for the calendar year effective January 1, 1990.) Total member contributions are refundable, without interest, if no monthly benefit is payable upon separation from service. (Contribution provisions are applicable only to full-time firemen.)

SECTION C

Valuation Methods and Assumptions

Mankato Fire Department Relief Association

Valuation Methods and Assumptions

The Entry Age Normal Cost method was used to determine the normal cost of all benefits. The rate of investment return (interest) as required by state law used in making the valuation was 5.0 percent per annum, compounded annually. Age & service retirement was assumed to occur at age 57, or attained age if older.

Mortality Table*

Sample Ages	Single Life Values: Present Value of $1 Monthly — Level For Life — Men	Level For Life — Women	Increasing 3.5% Yearly — Men	Increasing 3.5% Yearly — Women	Future Life Expectancy (Years) — Men	Future Life Expectancy (Years) — Women
45	$177.21	$189.58	$280.82	$314.75	29.50	34.00
50	163.12	177.21	246.55	280.82	25.20	29.50
55	147.50	163.12	212.60	246.55	21.16	25.20
60	130.52	147.50	179.49	212.60	17.42	21.16
65	112.87	130.52	148.28	179.49	14.05	17.42
70	95.20	112.87	119.70	148.28	11.09	14.05
75	77.77	95.20	93.83	119.70	8.52	11.09
80	61.71	77.77	71.69	93.83	6.39	8.52

* UP-1984 Table set forward 2 years for males and set back 3 years for females.

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

Sample Ages	% of Active Members Separating within Next Year
20	1.50%
25	1.25
30	1.00
35	0.75
40	0.50
45	0.25
50+	0.00

Pay Adjustment Factor Used To Project Current Pays

Sample Ages	Present Pay Resulting in Pay of $1,000 at Age 60	Present Increase in Pay During Next Year
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.

Anticipated Disability Retirements

Sample Ages	% of Active Members Becoming Disabled within Next Year
20	0.08%
25	0.08
30	0.08
35	0.08
40	0.20
45	0.26
50	0.49
55	0.89

SECTION D

The Pension Benefit Obligation and Certain Other Disclosures Required by Statement No. 5 of the Governmental Accounting Standards Board

PENSION BENEFIT OBLIGATION

The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to (i) help users assess the plan's funding status on a going-concern basis, (ii) assess progress being made in accumulating sufficient assets to pay benefits when due, and (iii) allow for comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 1988. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 5.0% per year compounded annually, (b) projected salary increases of 3.5% per year compounded annually, attributable to inflation, (c) the assumption that benefits will increase 3.5% per year after retirement.

At December 31, 1988, the unfunded pension benefit obligation was $6,332.548, determined as follows:

Pension Benefit Obligation:	
Retirants and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$7,313,664
Current employees --	
Accumulated employee contributions including allocated investment income	268,767
Employer financed	1,213,049
Total Pension Benefit Obligation	$8,795,480
Net assets available for benefits, at cost (market value was $2,462,932)	2,462,932
Unfunded Pension Benefit Obligation	$6,332,548

The total pension benefit obligation as of January 1, 1988 was $8,653,654. During the year, the plan experienced a net change of $141,826 in the pension benefit obligation. Of that change $425,825 was attributable to changes in actuarial assumptions used for determination of this value.

CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The Association's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using an entry age actuarial funding method. Unfunded actuarial accrued liabilities are being amortized as a level dollar amount over a period of 21 years.

During the year ended December 31, 1988, contributions totaling $522,041 -- $496,937 employer and $25,104 employee -- were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 1986. The employer contributions consisted of $28,431 for normal cost and $468,506 for amortization of the unfunded actuarial accrued liability. Employer contributions represented 151.89% of covered payroll.

Changes in actuarial assumptions during the valuation year ended December 31, 1988 resulted in increases in the computed contribution rates of 6.42% of covered payroll for the normal cost and $33,389 for the unfunded actuarial accrued liabilities.

Significant actuarial assumptions used to compute contribution requirements were the same as those used to compute the standardized measure of the pension benefit obligation.

Computed Contribution Comparative Schedule

Fiscal Year December 31	Valuation Date December 31	Contribution Rates: Normal Cost % of Valuation Payroll	Contribution Rates: UAAL Dollars	Valuation Payroll	Dollar Contribution For Fiscal Year: Computed	Dollar Contribution For Fiscal Year: Actual
1987	1985	8.78%	$392,021	$415,488	$428,501	$431,761
1988	1986	8.69	445,082	327,168	473,513	496,937
1989	1987	8.77	480,918	218,112	500,046	
1990	1988*	15.08	486,296	218,112	519,187	

* After change in assumptions.

REQUIRED SUPPLEMENTARY INFORMATION

ANALYSIS OF FUNDING PROGRESS

Valuation Date December 31	(1) Net Assets Available for Benefits	(2) Pension Benefit Obligation (PBO)	(3) Percent Funded (1)/(2)	(4) Unfunded PBO (2)-(1)	(5) Annual Covered Payroll	(6) Unfunded PBO as a Percentage of Covered Payroll (4)/(5)
1987	$2,211,604	$8,653,654	25.6%	$6,442,050	$218,112	2,953.6%
1988	2,462,932	8,795,480	28.0	6,332,548	218,112	2,903.3

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the plan's funded status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. The unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the progress being made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

APPENDICES

APPENDIX I

FINANCIAL PRINCIPLES AND OPERATIONAL TECHNIQUES

Promises Made, and Eventually Paid. As each year is completed, the plan in effect hands an "IOU" to each member then acquiring a year of service credit -- the "IOU" says: "The Pension Plan owes you a portion of your retirement benefits, payments to be made in cash, commencing when you qualify for retirement."

The related key financial questions are: Which generation of taxpayers contributes the money to cover the IOU? The present taxpayers, who receive the benefit of the member's present year of service? Or the future taxpayers, who happen to be in town paying taxes at the later time when the IOU becomes a cash demand?

A sound principle of sound retirement plan financing is to have this year's taxpayers contribute the money to cover the IOUs being handed out this year. By following this principle, THE CONTRIBUTION RATE WILL REMAIN APPROXIMATELY LEVEL FROM GENERATION TO GENERATION -- our children and grandchildren will contribute the same percents of active payroll we contribute now.

A PENSION PLAN BECOMES CLOSED

The diagram in this appendix shows two important activities which occur after a plan has been closed to employees hired in the future.

Cash benefits paid continue to increase for decades, while active member payroll begins to decrease to zero.

Funding Method. A funding method is the long-term, planned pattern for employer contributions.

For an open plan (a plan covering future employees), the level-percent-of-active-member payroll funding method is the basic funding method.

The level-percent funding method can also be applied to a closed plan. However, the resulting contribution percent usually jumps to a high rate, because the number of covered active members is decreasing.

A preferred funding method for a closed plan consists of: level-percent funding for normal cost (the cost of members' service now being rendered); plus a level dollar contribution for unfunded actuarial accrued liabilities over a limited period of years. The period of years must be limited so that plan assets don't become zero while benefits are still payable.

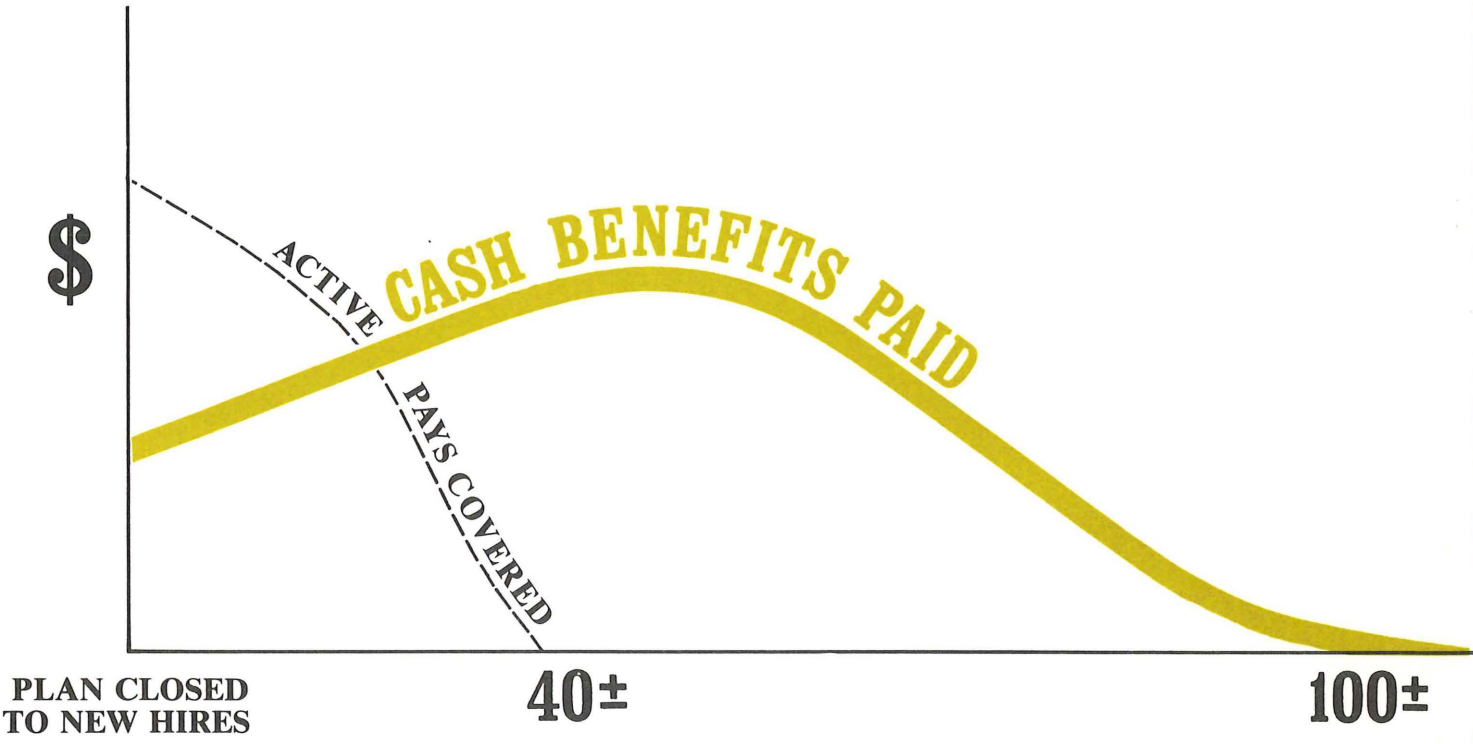
Computing Contributions To Support Plan Benefits. From a given schedule of benefits and from the employee data and asset data furnished him, the actuary determines the contribution rates to support the benefits by means of an actuarial valuation and a funding method.

In making an actuarial valuation, assumptions must be made regarding anticipated financial experiences for the next year and for decades in the future. Only the subsequent actual experience of the plan can indicate the degree of accuracy of the assumptions.

Reconciling Differences Between Assumed Experience and Actual Experience. Once actual experience has occurred and been observed, it will not coincide exactly with assumed experience, regardless of the wisdom of the assumptions or the skill of the actuary and the millions of calculations he made. The future can be predicted with considerable but not 100% precision, except for inflation which seems to defy reliable prediction.

A well-managed plan copes with these continually changing differences by having periodic actuarial valuations. Each actuarial valuation is a complete recalculation of assumed future experience, taking into account all past differences between assumed and actual experience. The result is continuing adjustment in financial position.

A CLOSED PENSION PLAN



A plan becomes closed when no new hires are admitted to active membership. The persons covered by the plan at the time of closing continue their normal activities and continue to be covered by the plan, until the last survivor dies.

CASH BENEFITS LINE. After a pension plan becomes closed, the usual pattern is for cash benefits to continue to increase for decades of time. Eventually the cash benefits will peak, and then gradually decrease over more decades of time, ultimately to zero. The last cash benefit is likely to occur a century after the time the plan is closed.

The precise amounts of cash benefits cannot be known now, and must be estimated by assumptions of future experiences in a variety of financial risk areas.

APPENDIX II

MEANING OF UNFUNDED ACCRUED LIABILITIES

Almost every pension plan (public or private) has "unfunded accrued liabilities", so whatever they are, they aren't rare. Since the term is not part of everyday conversation, it needs some definition.

"Accrued liabilities" are the present value $ of plan promises to pay benefits in the future based upon service already rendered - - - a liability has been established ("accrued") because the service has been rendered, but the resulting monthly cash benefit may not be payable until years in the future. Accrued liabilities $ are the result of complex mathematical calculations, which are made by the plan's actuary (which is the name given to the specialist who makes such calculations).

If "accrued liabilities" at any time exceed the plan's accrued assets (cash & investments), the difference is "unfunded accrued liabilities". This is the common condition. If the plan's assets equalled the plan's "accrued liabilities", the plan would be termed "fully funded". This is a rare condition.

Each time a plan adds a new benefit which applies to service already rendered, an "accrued liability" is created, which is also an "unfunded accrued liability" because the plan can't print instant cash to cover the accrued liability. Payment for such unfunded accrued liabilities is spread over a period of years, commonly in the 20-40 year range.

Unfunded accrued liabilities can occur in another way: If actual financial experience is less favorable than assumed financial experience, the difference is added to unfunded accrued liabilities. In plans where plan benefits are directly related to an employee's pay near time of retirement (a common plan provision) rather than his average pay throughout his working career, unfunded accrued liabilities have been increasing in recent years because unexpected rates of pay increase have created additional accrued liabilities which could not be matched by reasonable investment results. Some of these unexpected pay increases are the direct result of inflation, which is a very destructive force on financial stability.

The existence of unfunded accrued liabilities is not bad, then (any more than a mortgage on your house is "bad"), but the changes from year to year in amount of unfunded accrued liabilities are important - - - "bad" or "good" or somewhere in between.

Nor are unfunded accrued liabilities a bill payable immediately (your food costs are payable immediately), but it is important that policy-makers prevent the amount from becoming unreasonably high and it is vital that your plan have a sound method for making payments toward them so that they are controlled.

The existence of large amounts of unfunded accrued liabilities indicates that total contributions in past years were less than level - - - an almost certain history if retired life liabilities are not fully funded now.