



Rochester Fire Department Relief Association

Annual Actuarial Valuation
December 31, 1987

Gabriel, Roeder, Smith & Company
Actuaries & Consultants

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May 19, 1988

Board of Trustees
Rochester Fire Department Relief Association
Rochester, Minnesota

Submitted in this report are the results of the December 31, 1987 actuarial valuation of the assets, actuarial values and contribution requirements associated with the benefits provided by the Rochester 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, 1989. 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.

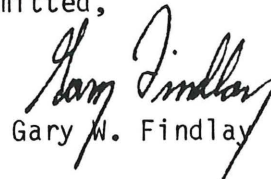
A description of the actuarial funding method and the risk experience assumptions used is contained in Section C. The economic risk experience assumptions, as well as the actuarial funding method to be used, are established by state law.

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.

Rochester Fire Department Relief Association

CONTRIBUTION RATE TO PROVIDE BENEFITS

Member portion & Employer portion
Effective January 1, 1989

Contributions for	If Paid Equally Throughout Year		
	Normal Cost % of Active Payroll for 1989	+	UAAL Dollars
Normal cost of annuities:			
Age & service: to members	14.27%		
Age & service: to survivors	2.19		
Disability	2.78		
Death before retirement	1.87		
Refunds of member contributions	0.20		
Total Normal Cost	21.31%		
Amortization of unfunded actuarial accrued liabilities (UAAL) (22 year level dollar payment)			
Retired lives			\$276,558
Active members			541,933
Total			818,491
Total Cost of Benefits	21.31%	+	\$818,491
Member contributions	8.00%		
COMPUTED EMPLOYER RATE:			
(a) If Paid Equally Throughout Year	13.31%	+	\$818,491
(b) IF PAID AT CALENDAR YEAR END	13.64%	+	\$838,704

Rochester Fire Department Relief Association
Present Actuarial Condition

The Association's accrued actuarial assets were in excess of \$11.6 million on December 31, 1987 -- 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 \$11.6 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.

	<u>Accrued Actuarial Assets</u>	<u>Actuarial Accrued Liabilities</u>	<u>Unfunded Actuarial Accrued Liabilities</u>	<u>% Funded</u>
Retirants and Beneficiaries				
Retired Members (50)		\$13,020,276		
Surviving Spouses (17)		1,413,060		
Surviving Children (0)		<u>0</u>		
Total (67)	\$10,702,736	\$14,433,336	\$ 3,730,600	74.2%
Deferred Members (0)	0	0	0	
Active Members (59)	<u>940,013</u>	<u>8,250,365</u>	<u>7,310,352</u>	11.4
Total	\$11,642,749	\$22,683,701	\$11,040,952	51.3%

Actuarial accrued liabilities represent the value, computed as of December 31, 1987 of:

- (i) retirement allowances likely to be paid the 67 retirants and beneficiaries; and
- (ii) the contributions assumed to have been made for the 59 active members from entry into the plan until December 31, 1987.

The value of retirement allowances likely to be paid the 67 retirants and beneficiaries, discounted for investment earnings and mortality, was computed to be \$14,433,336 as of December 31, 1987. To put this amount in perspective, the \$14,433,336, together with investment earnings, will just be sufficient to pay the 67 retirants and beneficiaries their allowances for their remaining lifetimes. This assumes the 67 retirants and beneficiaries live and die according to the assumed mortality and the \$14,433,336 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 \$8,250,365 represents the amount that would have been accumulated by December 31, 1987. 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, 1987 for the 59 actives, and that these amounts had earned 5.0% interest. It also assumes that the members in the past had lived, died, withdrawn, retired and received salary increases according to the actuarial assumptions shown in this report.

Historical Funding Ratio Schedule
(\$ in thousands)

<u>Valuation Date December 31</u>	<u>Actuarial Accrued Liabilities</u>	<u>Accrued Actuarial Assets</u>	<u>Percent Funded</u>
1978	\$ 9,827	\$ 3,089	31.4%
1979	N/A	N/A	N/A
1980	13,233	4,366	33.0
1981	14,971	4,802	32.1
1982	16,895	5,782	34.2
1983	18,040	6,751	37.4
1983*	19,308	6,751	35.0
1984	19,865	7,862	39.6
1985	21,012	9,299	44.3
1986	22,087	11,024	49.9
1987	22,684	11,643	51.3

* After change in assumptions.

Rochester Fire Department Relief Association
 Computed Contributions - Comparative Schedule

Year Ended December 31		Total Normal Cost as a Percent of Valuation Payroll*	Contribution For Unfunded Actuarial Accrued Liabilities \$ or %
Valuation	Fiscal		
1978	1980	20.13%	\$427,736
1979	1981	N/A	N/A
1980	1982	20.45	571,483
1981	1983	20.20	666,017
1982	1984	20.11	740,587
1983	1985	20.02	766,320
1983	1985**	21.97	852,373
1984	1986	21.93	831,085
1985	1987	21.32	828,331
1986	1988	21.27	800,295
1987	1989	21.31	818,491

* Includes employee contributions.

** After change in assumptions.

Rochester Fire Department Relief Association
CONTRIBUTION FOR CALENDAR YEAR EFFECTIVE JANUARY 1, 1988

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:

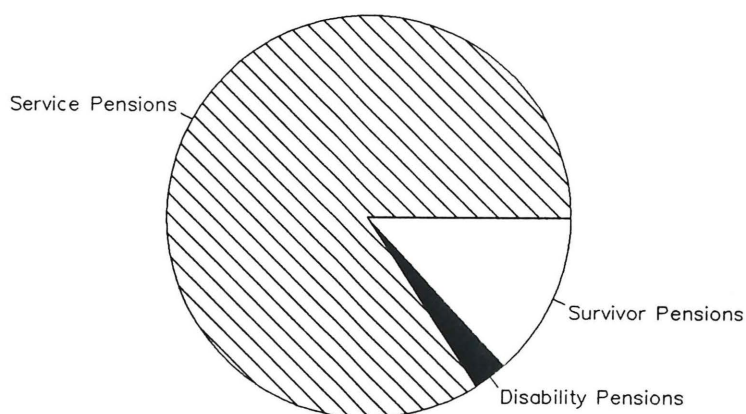
(1)	Estimated covered payroll for 1989		\$ _____
(2)	Total normal cost % from page A-2		21.31%
(3)	Total normal cost (Line 1 times line 2)		\$ _____
(4)	_____ x 1.035		
	1987 Administrative expenses paid from the Special Fund		_____
(5)	Amortization payment on UAAL from page A-2		818,491
(6)	Total contributions 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 \$6,738,118	\$101,409	
	(b) State amortization aid based on 1984 legislation	<u>20,191</u>	
	(c) Total State amortization aid		121,600
(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

Rochester Fire Department Relief Association
Retirants and Beneficiaries December 31, 1987
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	48	\$66,849.71	\$12,449,448
Disability	<u>2</u>	<u>2,212.12</u>	<u>570,828</u>
Totals	50	69,061.83	13,020,276
Beneficiaries receiving:			
Spouse	17	10,474.38	1,413,060
Child	<u>0</u>	<u>0.00</u>	<u>0</u>
Totals	17	10,474.38	1,413,060
Totals	<u>67</u>	<u>\$79,536.21</u>	<u>\$14,433,336</u>



Monthly Amount Paid by Benefit

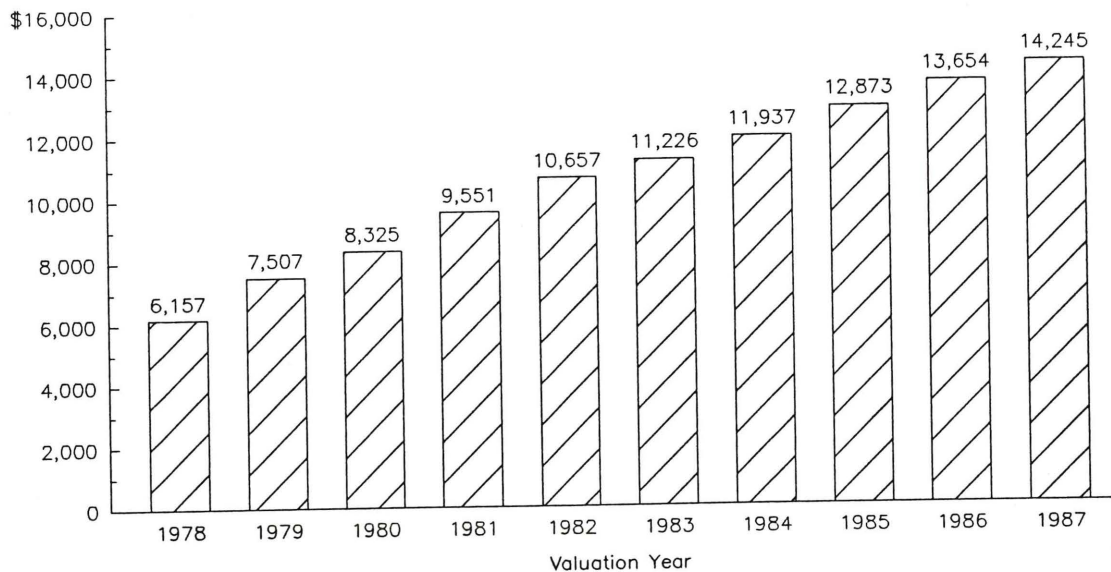
Rochester Fire Department Relief Association
Retirants and Beneficiaries December 31, 1987
By Attained Ages

<u>Attained Ages</u>	<u>Number</u>		
	<u>Age & Service</u>	<u>Disability</u>	<u>Death Before Retirement</u>
35-39		1	
40-44		1	
50-54	1		
55-59	13		1
60-64	22	1	1
65-69	9		
70-74	5		4
75-79	3		
85-89	3		
90-94	1		
95-99	<u>1</u>	<u>—</u>	<u>—</u>
Totals	58	3	6

Rochester 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	
1978			42	\$258,576	\$ 4,206,070
1979	7	0	49	367,838	5,823,443
1980	5	2	52	432,918	6,760,601
1981	8	1	59	563,484	8,602,349
1982	6	2	63	671,372	10,383,608
1983	4	1	66	740,898	12,091,843
1984	4	5	65	775,930	12,221,412
1985	6	2	69	888,253	14,062,368
1986	1	1	69	942,154	14,566,824
1987	0	2	67	954,435	14,433,336

Average Annual Allowances



Rochester Fire Department Relief Association

Active Members December 31, 1987

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
30-34		6	3					9	\$ 277,272
35-39		1	4					5	154,040
40-44		1	5	6	2			14	431,312
45-49				5	13	2		20	616,160
50-54					2	1		3	92,424
55-59						1	4	5	154,040
60						1	1	2	61,616
63							1	1	30,808
Totals		8	12	11	17	5	6	59	\$1,817,672

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

Age: 44.7 years.

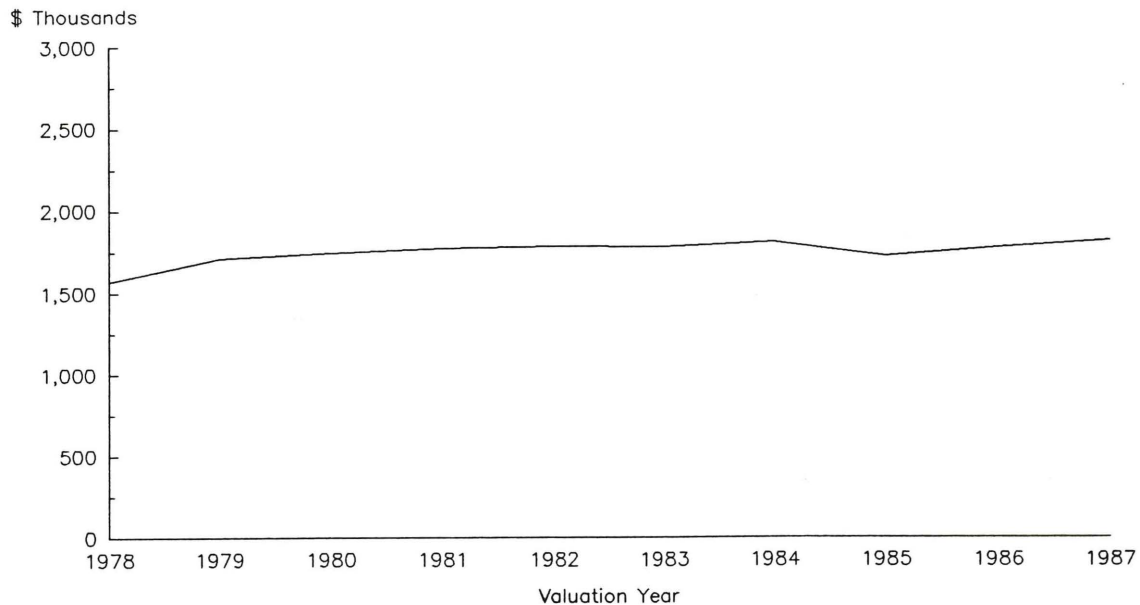
Service: 18.5 years.

Annual Pay: \$30,808.

Rochester Fire Department Relief Association
Comparative Schedule
Of Active Members

Valuation Date December 31	Active Members	Valuation Payroll	Age	Average Service	Pay	% Incr.
1978	91	\$1,568,112	42.2 yrs.	15.7 yrs.	\$17,232	- %
1979	91	1,709,253	41.1	14.6	18,783	9.0
1980	86	1,744,596	41.5	15.1	20,286	8.0
1981	79	1,773,708	41.2	15.0	22,452	10.7
1982	73	1,786,164	41.6	15.3	24,468	9.0
1983	69	1,778,544	42.3	16.0	25,776	5.3
1984	67	1,813,020	42.9	16.6	27,060	5.0
1985	61	1,725,263	42.7	16.5	28,283	4.5
1986	60	1,777,560	43.5	17.3	29,626	4.7
1987	59	1,817,672	44.7	18.5	30,808	4.0

Valuation Payroll



Rochester Fire Department Relief Association

Brief Summary (12/31/87) of Benefit Provisions Evaluated and/or Considered

Age & Service Retirement

Eligibility. 20 years of service and 50 years of age if hired before 7/1/69.
20 years of service and 55 years of age if hired after 6/30/69.

Amount. For first 20 years of service, 35/75 of base pay. For each year in excess of 20, 1/75 is added up to a maximum of 42/75 of base pay for 27 or more years of service. In addition, and not subject to the maximum above, 1/2% of base pay is paid for each year of service over 25. (The latter additional benefit is not subject to the post retirement adjustment provisions.)

Pay Used For Plan Purposes. "Base pay" means the salary of a first class firefighter.

Disability Retirement

Eligibility. Permanently disabled to the extent that no longer able to perform the duties of a firefighter before being eligible for regular 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. 18/75 of base pay.

Child. 6/75 of base pay per child. Children's maximum is 18/75 if spouse is receiving or 36/75 if no spouse is receiving.

Vested Deferred. 20 years of service and separated before reaching eligible retirement age. Payment is deferred to attainment of age 50 or 55 depending on date hired.

Post-Retirement Adjustments ("Escalator"). If hired before 7/1/69, each time base pay is changed, payments to benefit recipients are simultaneously changed by the same percent that base pay is changed. If hired after 6/30/69, changes in benefits are equal to 1/2 of the dollar amount of the changes for those hired before 7/1/69.

Member Contributions. 8% of base pay. 75% of total member contributions is refundable, without interest, if no monthly benefit is payable upon separation from service.

Medical, Accident, or Hospitalization Expenses (Active Members). If expenses exceed amount provided by municipal plan, and member has paid \$100 of the excess, additional expenses up to \$500 may be paid by the association for any one illness.

Section C

Valuation Methods and Assumptions

Rochester 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 60, or attained age if older.

Mortality Table*

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	\$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

<u>Sample Ages</u>	<u>Present Pay Resulting in Pay of \$1,000 at Age 60</u>	<u>Present 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.

Anticipated Disability Retirements

<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

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, 1987. 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, and (c) the assumption that benefits will increase after retirement 3.5% per year after retirement, if hired before 7/1/69 and 1.75% per year if hired after 6/30/69.

At December 31, 1987, the unfunded pension benefit obligation was \$10,671,472, determined as follows:

Pension Benefit Obligation:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$14,433,336
Current employees --	
Accumulated employee contributions including allocated investment income	1,253,351
Employer financed	<u>6,475,898</u>
Total Pension Benefit Obligation	\$22,162,585
Net assets available for benefits, at cost (market value was \$11,946,021)	<u>11,491,113</u>
Unfunded Pension Benefit Obligation	\$10,671,472

The total pension benefit obligation as of January 1, 1987 was \$21,581,025. During the year, the plan experienced a net change of \$581,560 in the pension benefit obligation.

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 22 years.

During the year ended December 31, 1987 contributions totaling \$1,177,851 -- \$1,036,836 employer and \$141,015 employee -- were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 1985. The employer contributions consisted of \$229,805 for normal cost and \$807,031 for amortization of the unfunded actuarial accrued liability. Employer contributions represented 60.10% of covered payroll.

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		Valuation Payroll	Dollar Contribution For Fiscal Year	
		Normal Cost % of Valuation Payroll	UAAL Dollars		Computed	Actual
1987	1985	13.32%	\$828,331	\$1,725,263	\$1,058,136	\$1,036,836
1988	1986	13.27	800,295	1,777,560	1,036,177	
1989	1987	13.31	818,491	1,817,672	1,060,423	

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	\$11,491,113	\$22,162,585	51.8%	\$10,671,472	\$1,817,672	587.1%

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.

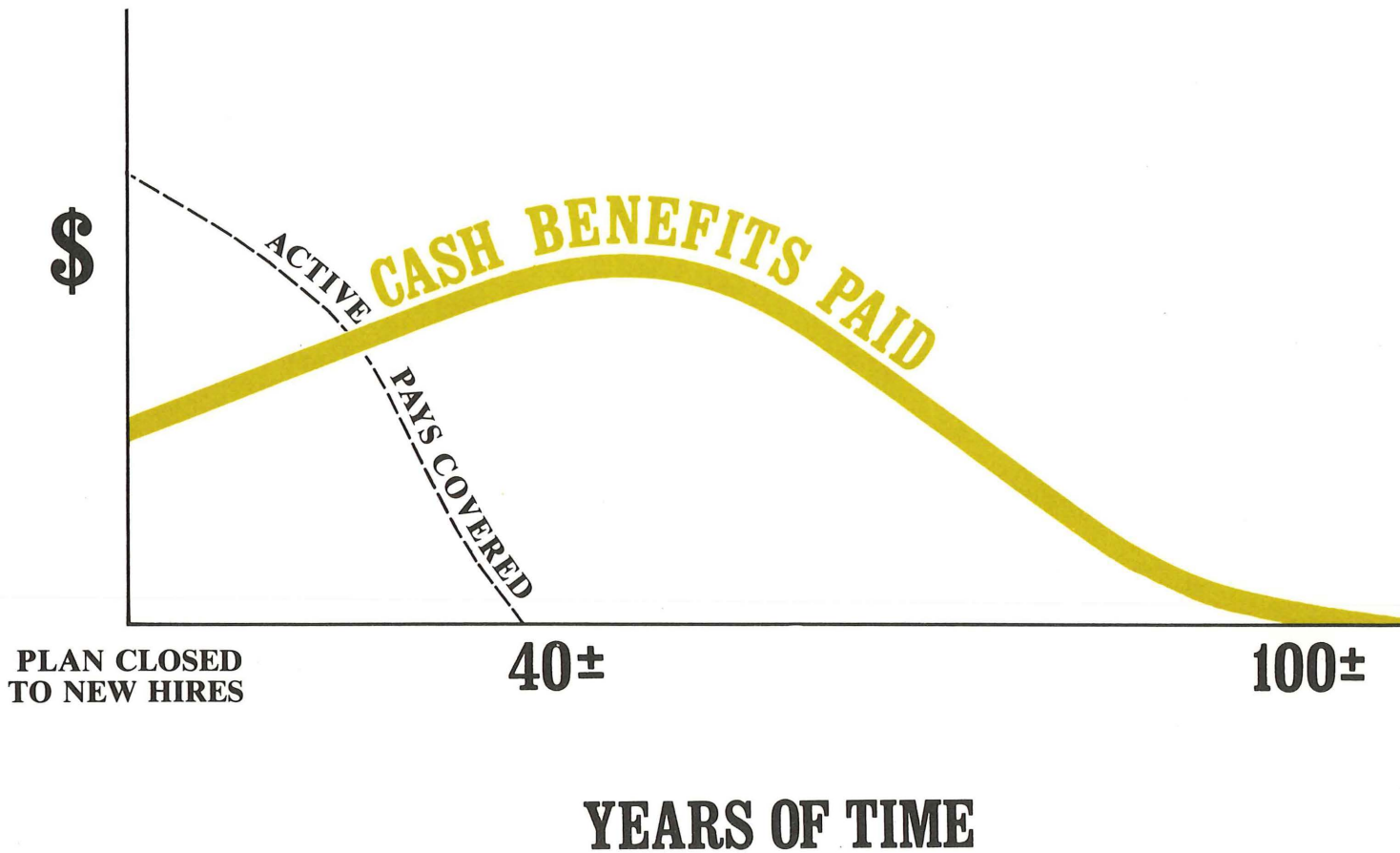
Computing Contributions To Support Plan Benefits. From a given schedule of benefits and from the employee data and asset data furnished him, the actuary determines the contribution rates to support the benefits by means of an actuarial valuation and a funding method.

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.