

**FAIRMONT POLICEMEN'S
RELIEF ASSOCIATION**

*December 31, 2002
Actuarial Valuation*

June, 2003



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FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

December 31, 2002 Actuarial Valuation

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FAIRMONT POLICEMEN'S RELIEF ASSOCIATION
December 31, 2002 Actuarial Valuation

Introduction

Purpose

This report presents the results of the December 31, 2002 valuation and benefit study for the Fairmont Policemen's Relief Association. Its primary purposes are:

- to determine the funded status as of December 31, 2002,
- to determine the amortization payment for 2002, and
- to present information required to be disclosed under General Accounting Standards Board Statement No. 25 (GASB 25) as of December 31, 2002.

Sources of Data

The Relief Association supplied December 31, 2002 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, 2001. The actuarial assumptions and methods used to prepare this report are the same as those used in the 2001 report. The annual benefit value per unit increased from \$643.65 on December 31, 2001 to \$687.56 on December 31, 2002, a 6.82% increase, 3.32% more than the assumed increase of 3.5%.

Summary of Valuation Results

The funded status of the plan decreased from 91.9% on December 31, 2001 to 82.1% on December 31, 2002. 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 (-2.70% versus 5%), and the benefit increase was greater than assumed (6.82% versus 3.5%). These results have caused the amount of the amortization payment to increase from \$90,321 last year, to \$230,291 this year. Because of the fixed amortization date of December 31, 2010, the unfunded actuarial accrued liability of \$1.4 million is amortized over only 7 years. This shortening of the amortization period magnifies the increase in the amortization payment. Unless the investment return over 2003 is at least 5%, the payment will increase again next year.

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION
December 31, 2002 Actuarial Valuation

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

December 31, 2002 Actuarial Valuation

Summary of Results

	<u>December 31, 2001</u>	<u>December 31, 2002</u>
<i>A. Membership data*</i>		
1. Liability Duration		
a. Average annuity factor	16.4	15.8
b. Average life expectancy	15.7	15.1
2. Number of members		
a. Retirees	11	11
b. Surviving spouses	3	3
c. Total	14	14
<i>B. Amortization payments</i>		
1. Unfunded actuarial accrued liability	612,953	1,399,178
2. Amortization payment	90,321	230,291
<i>C. Value of plan assets</i>		
1. Market value	6,757,468	6,178,561
2. Actuarial value (for calculating contributions)	6,960,424	6,431,374
3. Investment return on actuarial value of assets	1.54%	-2.69%
<i>D. Benefit liabilities</i>		
1. Present value of future benefits	7,573,377	7,830,552
2. Actuarial accrued liability	7,573,377	7,830,552
<i>E. Funded status</i>		
1. Actuarial value of assets as a % of liabilities	91.9%	82.1%
2. Market value of assets as a % of liabilities	89.2%	78.9%

*This is a closed group, all members have retired, so there are only retirees and beneficiaries.

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

December 31, 2002 Actuarial Valuation

Funding Basis

Actuarial Value of Assets

A. Unrealized gain

Year Ending December 31:	Market Value	Book Value	Unrealized Gain (Market - Book)
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)
2002	6,178,561	6,557,781	(379,220)

December 31, 2001 December 31, 2002

B. Actuarial value of assets

1. Book value	7,061,902	6,557,781
2. One-third of unrealized gain	(101,478)	(126,407)
3. Actuarial value (1. + 2.)	\$6,960,424	\$6,431,374

December 31, 2002 Actuarial Valuation

Summary of Member Data

	<u>December 31, 2001</u>	<u>December 31, 2002</u>
<u>A. Retirees</u>		
1. Age & service	11	11
2. Total annual benefits	\$395,201	\$422,162
3. Average annual benefit	\$35,927	\$38,378
4. Average age	62.6	63.6
<u>B. Beneficiaries</u>		
1. Surviving spouses	3	3
2. Total annual benefits	\$67,583	\$72,194
3. Average annual benefit	\$22,528	\$24,065
4. Average age	72.3	73.3
<u>C. Total number of members (A.1. + B.1.)</u>	14	14

This is a closed group, all members have retired, so there are only retirees and beneficiaries.

*December 31, 2002 Actuarial Valuation***Summary of Changes in Membership**

	<u>Retirees</u>	<u>Beneficiaries</u>	<u>Total</u>
<u>A. Number of members on December 31, 2001</u>	11	3	14
<u>B. Changes in membership</u>			
1. Deaths			0
2. Corrections			0
3. Total changes	0	0	0
<u>C. Number of members on December 31, 2002</u>	11	3	14

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

December 31, 2002 Actuarial Valuation

Funding Basis

Actuarial Values Used to Determine Contribution

December 31, 2001 December 31, 2002

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	6,817,754	7,056,977
4. Spouses and children receiving benefits	755,623	773,575
5. Disabled members receiving benefits	0	0
6. Total present value of projected benefits	7,573,377	7,830,552

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	6,817,754	7,056,977
4. Spouses and children receiving benefits	755,623	773,575
5. Disabled members receiving benefits	0	0
6. Total actuarial accrued liability	7,573,377	7,830,552

C. Amortization of unfunded actuarial accrued liability

1. Total actuarial accrued liability (A.7.)	\$7,573,377	\$7,830,552
2. Actuarial value of assets	6,960,424	6,431,374
3. Unfunded actuarial accrued liability (1. - 2.)	612,953	1,399,178
4. Funded status (2. / 3.)	91.9%	82.1%
5. Years left in amortization period	8	7
6. Amortization payment	90,321	230,291

E. Key economic assumptions

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

This is a closed group, all members have retired, so there is no normal cost.

December 31, 2002 Actuarial Valuation

Changes in the Unfunded Actuarial Accrued Liability**A. Liability gain or loss for the year ending on December 31, 2002**

1. Expected actuarial accrued liability (AAL)	
a. AAL as of December 31, 2001	\$7,573,377
b. Normal cost as of December 31, 2001	0
c. Interest to December 31, 2002 on the AAL and normal cost	378,669
d. Expected benefit payments for the year (excluding post-retirement benefits)	(459,539)
e. Interest on benefit payments (1/2 year)	(11,488)
f. Expected AAL on December 31, 2002 (sum of a. through e.)	7,481,019
2. Actual AAL on December 31, 2002	
a. Before any assumption or plan changes	7,587,032
b. After assumption changes, but before any unit value changes	7,587,032
c. After assumption and unit value changes	7,830,552
3. Liability (gain) or loss	
a. Due to plan experience different from that expected (2a. - 1f.)	106,013
b. Due to changes in actuarial assumptions (2b. - 2a.)	0
c. Due to changes in unit value (2c. - 2b.)	243,520
d. Total (a. + b. + c.)	106,013

B. Asset gain or loss for the year ending on December 31, 2002

1. Expected actuarial value of assets	
a. Actuarial value of assets on December 31, 2001	6,960,424
b. Actual benefit payments and expenses for the year	(486,226)
c. Contributions for the year	90,321
d. Expected return on assets	338,124
e. Expected actuarial value of assets on December 31, 2002 (sum of a. through d.)	6,902,643
2. Actual actuarial value of assets on December 31, 2002	6,431,374
3. Asset (gain) or loss (1e. - 2.)	471,268

C. Changes in the unfunded AAL

1. Expected unfunded AAL on December 31, 2002	578,376
2. Changes	
a. Actuarial (gain) or loss other than change in unit value	577,281
b. Change in unit value different from expected	243,520
c. Changes in actuarial methods and assumptions	0
d. Total change	
3. Unfunded AAL on December 31, 2002	1,399,178

December 31, 2002 Actuarial Valuation

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

	December 31, 2001	December 31, 2002
<i>A. Assets</i>		
1. Cash	\$24,085	\$0
2. Short-term investments	0	0
3. Total	24,085	0
<i>B. Receivables</i>		
1. Accrued interest	7,566	7,554
2. Distributions	989	4,906
3. Accrued contributions	0	0
4. Total	8,555	12,460
<i>C. Accounts payable</i>		
	0	0
<i>D. Investments, at fair value</i>		
1. Daily passport trust	81,306	88,072
2. Mutual funds	2,943,993	2,499,830
3. Asset and mortgage backed securities	2,575,737	2,357,640
4. Unit trusts	536,839	573,258
5. Corporate bonds	154,939	58,211
6. Government securities	372,051	509,596
7. GNMA mortgage certificate	10,530	40,866
8. Limited partnerships	49,433	38,628
9. Total	6,724,828	6,166,101
<i>E. Net assets held in trust for pension benefits</i>		
	6,757,468	6,178,561

December 31, 2002 Actuarial Valuation

*Accounting Basis*Statement of Changes in Plan Net Assets

December 31, 2001 December 31, 2002

A. Additions

1. Contributions		
a. Employer	\$10,095	\$90,321
b. Plan members	0	0
c. Total	10,095	90,321
2. Investment income		
a. Interest and dividends	371,230	286,339
b. Partnership income	4,525	3,804
c. Realized gain (loss)	(60,522)	(397,070)
d. Change in unrealized appreciation (depreciation)	(207,900)	(75,939)
e. Total	107,333	(182,866)
3. Total additions	117,428	(92,545)

B. Deductions

1. Service pensions	371,077	386,727
2. Survivors pensions	63,632	68,131
3. Distributions to members	11,918	11,918
4. Professional services	9,875	9,365
5. Salaries	1,841	1,724
6. Other expenses	7,881	8,497
7. Total deductions	466,224	486,362

C. Net increase

(348,796) (578,907)

D. Adjustments

0 0

E. Net assets held in special fund

1. Beginning of year	\$7,106,264	\$6,757,468
2. End of year	\$6,757,468	\$6,178,561

F. Investment return

1. Market value of assets	1.56%	-2.79%
2. Actuarial value of assets	1.54%	-2.69%

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION
December 31, 2002 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%	-	-
2002	6,431	7,831	1,399	82.1%	-	-

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION
December 31, 2002 Actuarial Valuation

Accounting Basis

Schedule of Employer Contributions

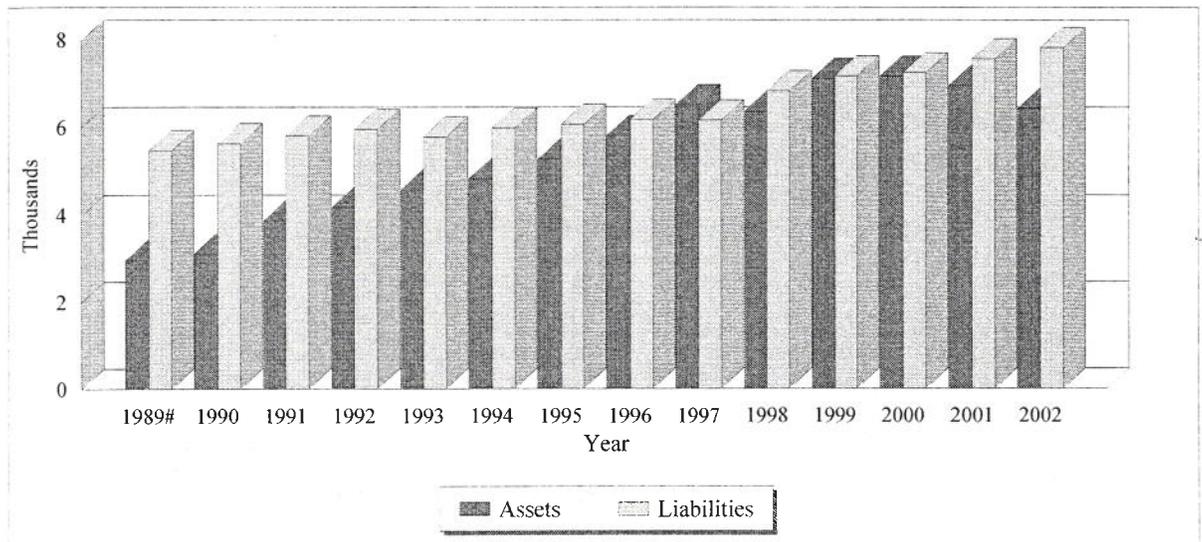
<u>Year Ended December 31:</u>	<u>Annual Employer Contributions</u>
1992	\$286,563
1993	243,556
1994	243,726
1995	208,626
1996	163,177
1997	257,828
1998	5,829
1999	0
2000	7,529
2001	10,095
2002	90,321

Historical Tables

Historical Funding Ratio Schedule
(Dollar amounts in thousands)

<u>As of</u> <u>December 31:</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Percent</u> <u>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%
2002	7,831	6,431	82.1%

#After court ruling on definition of prevailing pay.



Historical Tables

History of Employer Contributions

Valuation December 31:	Normal Cost as a Percent of Payroll	Amortization of Unfunded Actuarial Liability
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
2002	-	230,291

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

December 31, 2002 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	-	-	-	-	-
2002	0	-	-	-	-	-

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION
December 31, 2002 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
2002	0	0	14	494,356	7,830,552

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

- | | |
|---------------------------------|---|
| 1. Normal Retirement Benefit | 50% of "base pay" with 20 years of service, increased 2% per year up to a maximum of 60%. "Base pay" is the prevailing pay of a first class patrolman for the City of Fairmont. All members are now retired. Their benefit is the benefit they are currently receiving, adjusted by increases in base pay.. |
| 2. Deferred Vested Benefit | None. All members are retired. |
| 3. 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. |
| 4. 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. |
| 5. Member Contributions | None. There are no active members. |

November 6, 2003

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Director, LCPR
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Commissioner Dan McElroy
Minnesota Department of Finance
638 Cedar Street
St. Paul, MN 55155

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Re: 12/31/2002 Actuarial Valuation Report - Fairmont Policemen's Relief Association

We have enclosed for filing one copy of the December 31, 2002 actuarial valuation report for the Fairmont Policemen's Relief Association. Please inform us if you have any questions regarding the report or need additional copies.

Sincerely,



Paul D. Krueger, JD, EA
Consulting Actuary

c: Harley Rosenberg - Fairmont Policemen's Relief Association