

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

LEGISLATIVE REFERENCE LIBRARY
STATE OF MINNESOTA

GABRIEL, ROEDER, SMITH & COMPANY

TABLE OF CONTENTS

<u>Pages</u>	<u>Item</u>
1	Signature Page
2	Purpose of Gain/Loss Analysis
3	Activity Which Results in Gains or Losses
	Composite Results of Gain/Loss Analysis
4	1979
5	1980
	Schedules of Active Employees
6	1979
7	1980
	Schedules of Separations From Active Service
8	1979
9	1980
10	Schedule of Age & Service Retirement
11	Schedule of Death After Retirement
12	Comments

Appendices

Valuation Methods and Assumptions

Summary of Benefit Provisions

GABRIEL, ROEDER, SMITH & COMPANY

ACTUARIES & CONSULTANTS

2090 First National Building
Detroit, Michigan 48226
Area 313: 961-3346

May 27, 1981

City of Albert Lea
Firemen's Relief Association
Albert Lea, Minnesota

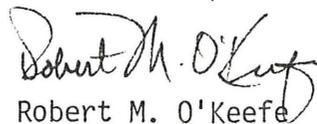
Submitted in this report are the results of the 1979-80 gain/loss analysis of the financial experiences of the City of Albert Lea Firemen's Relief Association.

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.

ALBERT LEA 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>	\$ 0	\$ N/A	N/A	\$ 0
<u>Disability & Death-in-Service</u>				
a. <u>Disability</u>	(5.2)	N/A	N/A	(0.25)
b. <u>Death-in Service</u>	5.1	N/A	N/A	0.25
<u>Withdrawal</u>	30.0	N/A	N/A	1.46
<u>Salary Increases</u>	171.7	52.5		10.94
<u>Investment Income</u>	(9.9)	(21.8)		(1.55)
<u>Post Retirement Mortality</u>	N/A	14.0	N/A	0.68
<u>Contributions</u>	1.3	1.6		0.14
<u>Miscellaneous</u>	<u>(7.2)</u>	<u>(1.7)</u>	—	<u>(0.43)</u>
EXPERIENCE RELATED (GAIN)/LOSS & CORRESPONDING CHANGE IN CONTRIBUTION REQUIREMENTS	\$185.8	\$44.6	N/A	\$11.24
<u>Changes due to plan amendments</u>	—	—	—	—
TOTAL (GAIN)/LOSS DURING YEAR	<u>\$185.8</u>	<u>\$44.6</u>	<u>N/A</u>	<u>\$11.24</u>

ALBERT LEA 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 (Gain) or Loss</u>		<u>Contribution Requirements (Gain) or Loss</u>	
	<u>Active Members</u>	<u>Retirants & Beneficiaries</u>	<u>Normal Cost % of Payroll</u>	<u>\$ Payment on UAL</u>
	<u>(\$ in 1,000)</u>		<u>(\$ in 1,000)</u>	
<u>Age & Service Retirements</u>	\$ 42.6	\$ N/A	0.29 %	\$ 2.08
<u>Disability & Death-in-Service</u>				
a. <u>Disability</u>	(5.7)	N/A	(0.19)	(0.28)
b. <u>Death-in Service</u>	2.6	N/A	(0.31)	0.13
<u>Withdrawal</u>	7.7	N/A	0.20	0.38
<u>Salary Increases</u>	373.2	174.6		26.73
<u>Investment Income</u>	(26.2)	(72.0)		(4.79)
<u>Post Retirement Mortality</u>	N/A	22.4	N/A	1.09
<u>Contributions</u>	0.3	0.5		0.04
<u>Miscellaneous</u>	<u>(1.7)</u>	<u>(0.5)</u>		<u>(0.11)</u>
EXPERIENCE RELATED (GAIN)/LOSS & CORRESPONDING CHANGE IN CONTRIBUTION REQUIREMENTS	\$392.8	\$125.0	(0.01)%	\$25.27
<u>Conversion to UAL Amortization</u>			N/A	43.97
<u>Change in Funding Method For Death & Disability</u>	79.2	N/A	(0.39)	3.86
<u>Changes due to plan amendments</u>	<u>72.2</u>		<u>0.50</u>	<u>3.52</u>
TOTAL (GAIN)/LOSS DURING YEAR	<u>\$544.2</u>	<u>\$125.0</u>	<u>(0.10)%</u>	<u>\$76.62</u>

ALBERT LEA 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>
30-34	4	\$ 57,996	\$ 64,533	11.3%
35-39	8	117,868	131,863	11.9
40-44	4	63,388	71,206	12.3
45-49	4	64,116	70,936	10.6
50-54	4	<u>72,394</u>	<u>79,169</u>	9.4
TOTALS	24	\$375,762	\$417,707	11.2%

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	0
1	1	2
2	0	1
3	0	0
4	0	0
5 or more	23	22

Average Age: 42.3 years.

Average Service: 16.5 years.

ALBERT LEA 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	1	\$ 15,793	\$ 19,072	20.8%
30-34	2	31,772	38,352	20.7
35-39	10	164,624	196,193	19.2
40-44	3	51,056	61,365	20.2
45-49	2	36,576	44,929	22.8
50-54	5	89,968	108,124	20.2
55-59	<u>1</u>	<u>24,492</u>	<u>30,117</u>	23.0
TOTALS	24	\$414,281	\$498,152	20.2%

Employees Active at Either Beginning or End of 1980

<u>Years Service</u>	<u>Beginning of Year</u>	<u>End of Year</u>
0	0	0
1	2	0
2	1	2
3	0	1
4	0	0
5 or more	22	21

Average Age: 42.8 years.

Average Service: 16.9 years.

ALBERT LEA 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		*		*		
30-34		0.1		*		*
35-39		0.1		*		*
40-44		*		*		*
45-49	1			*		*
50-54				0.1		0.1
TOTALS	1	0.2	0	0.1	0	0.1

* Less than 0.1%

<u>Years Service at Termination</u>	<u>Actual</u>	<u>Expected</u>
0		
1		
2		
3		
4		
5 or more	1	0.2
TOTALS	1	0.2

Average age at separation: 49.0 years.

Average service at separation: 21.9 years.

ALBERT LEA 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		*		*		*
30-34		*		*		*
35-39		0.1		*		*
40-44		0.1		*		*
45-49		*		*		*
50-54	—	—	—	<u>0.1</u>	—	<u>0.1</u>
TOTALS	0	0.2	0	0.1	0	0.1

* Less than 0.1%

<u>Years Service at Termination</u>	<u>Actual</u>	<u>Expected</u>
0		
1		
2		
3		
4		
5 or more	—	<u>0.2</u>
TOTALS	0	0.2

Average age at separation: N/A.

Average service at separation: N/A.

ALBERT LEA 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>
56	—	—	<u>1</u>	—
TOTALS	0	0.0	1	0.0

Average age at retirement during period examined: 56.0 years.

Average service at retirement during period examined: 32.1 years.

ALBERT LEA 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		0.0073		
55-59		0.0308		0.0641
60-64		0.0280		0.0303
65-69		0.0408		0.0438
70-74		0.0505		0.0543
75-79	<u>—</u>	<u>0.0827</u>	<u>—</u>	<u>0.0863</u>
TOTALS	0	0.2401	0	0.2788

Average age at death: N/A.

APPENDICES

ALBERT LEA 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		Increasing		Men	Women
	For Life		3.5% Yearly			
	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 56, 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

Albert Lea 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 50 years of age.

Amount. For first 20 years of service, 50% of final salary. For each year in excess of 20, 1% of final salary is added to the benefit. For each year in excess of 25 an additional 1/2% of base pay is added to the benefit. (The latter additional benefit is not subject to the post retirement adjustment provisions.)

Disability Retirement

Eligibility. Disabled to the extent that no longer able to perform duties of a fireman before being eligible for age & service retirement.

Amount. Same as regular retirement.

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

Eligibility.

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

Child. Younger than age 18.

Amount.

Spouse. 30% of final salary.

Child. 10% of final salary per child. Children's maximum is 20% if spouse is receiving or 50% if no spouse is receiving.

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 active firemen's salaries are changed, payments to all benefit recipients are simultaneously changed by the same percent that active pay is changed.

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