TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director

RE: Review of Proposed Actuarial Assumption Changes for the Public Employees Police and Fire Retirement Plan (PERA-P&F)

DATE: July 8, 2003

Introduction

On February 20, 2003, the Board of Trustees of the Public Employees Police and Fire Retirement Plan (PERA-P&F) approved recommendations by the consulting actuarial firm it retains, Mercer Human Resources Consulting, for various demographic actuarial assumption changes for the Public Employees Police and Fire Retirement Plan (PERA-P&F). The PERA Board is requesting approval by the Legislative Commission on Pensions and Retirement of those assumption changes under Minnesota Statutes, Section 356.215, Subdivision 18, Paragraph (a).

Quadrennial Experience Study Requirement

The Legislative Commission on Pensions and Retirement is required under Minnesota Statutes, Section 3.85, to contract with an established actuarial consulting firm to prepare annual actuarial valuations of fourteen statewide or major local Minnesota public employee pension plans and to prepare experience studies for the three largest retirement plans, the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General), and the Teachers Retirement Association (TRA), on a quadrennial basis. If the actuarial valuation gain and loss analysis indicates a persistent pattern of sizable gains or losses, the Commission is permitted to direct the Commission-retained actuary to prepare a special experience study for one of the smaller 11 retirement plans. Minnesota Statutes, Section 356.215, specifies the content requirements of both the annual actuarial valuation reports and quadrennial experience studies. The quadrennial experience study is required to contain an actuarial analysis of the experience of the plan and a comparison of that plan experience with the actuarial assumptions in force for the most recent annual actuarial experience. The standards for actuarial work, issued by the Commission, specify the detailed contents and format requirements for both the actuarial valuation reports and the experience studies.

The purpose of the quadrennial experience studies is to provide the Commission with a periodic opportunity to review the accuracy of the current actuarial assumptions, compared to the experience for the most recent period and to revise those actuarial assumptions based on the recommendation for the Commission's consulting actuary and on input from plan administrators, their actuarial consultants, and others.

Minnesota public pension plan actuarial assumptions are specified in part in statute (interest/investment return, individual salary increase, and payroll growth) and specified in part with Commission approval (the balance of all actuarial assumptions).

For retirement plans other than the three largest retirement plans, experience studies have occurred infrequently and generally have been performed by the consulting actuarial firm retained by the Commission. The most recent experience studies for the three first class city teacher retirement fund associations, the Duluth Teachers Retirement Fund Association (DTRFA), the Minneapolis Teachers Retirement Fund Association (MTRFA), and the St. Paul Teachers Retirement Fund Association (SPTRFA), were performed in 2001, covering the period 1994-2000. The most recent experience studies for several of the other plans are from 1993, for the period 1988-1992, covering the State Patrol Retirement Plan, the MSRS State Correctional Employees Retirement Plan (MSRS-Correctional), the Public Employees Police and Fire Retirement Plan (PERA-P&F), and the Minneapolis Employees Retirement Fund (MERF), all prepared by the consulting actuarial firm retained by the Commission, Milliman & Robertson, Inc. No recent experience studies have been performed for the Legislators Retirement Plan, the Elective State Officers Retirement Plan, the Judges Retirement Plan, or the Local Government Correctional Employees Retirement Plan of the Public Employees Retirement Association (PERA-Correctional).

Summary of 2002 PERA-P&F Experience Study

In 2002, the Public Employees Retirement Association Board of Trustees contracted with their actuarial consultant, Mercer Human Resources Consulting, to prepare an experience study for the Public Employees Police and Fire Retirement Plan (PERA-P&F) for the four-year period 1997-2001. Mercer Human Resources Consulting prepared two documents relating to the PERA-P&F experience study that have been forwarded to the Legislative Commission on Pensions and Retirement, a July 11, 2002, copy of overhead slides from a PowerPoint presentation and a December 10, 2002, experience study.

The December 10, 2002, PERA-P&F experience study forwarded to the Commission indicates the experience of PERA-P&F in comparison to six of the current actuarial assumptions:

(1) Retirement Age
(2) Disability
(3) Withdrawal/Terminations
(4) Mortality
    a. Annuitants/Retirees
        ? Males
        ? Females
    b. Active Members
        ? Males
        ? Females
    c. Disabilitants
(5) Salary Increases
(6) Payroll Growth

Based on the percentage comparison of the actual occurrences with the expected occurrences under the actuarial assumptions, the experience is either favorable from the plan's perspective (reduces liabilities) or unfavorable from the plan's perspective (increases liabilities), as follows:

Salary Increase: Individual salary increases in excess of the actuarial assumption are an actuarial loss and increase accrued liabilities, because a larger salary produces a larger future projected retirement annuity, creating a need for contributions.

Payroll Growth: Total payroll growth in excess of the actuarial assumption relates to the amortization of the unfunded actuarial accrued liability of the plan, with a greater total payroll providing greater base over which to spread the associated amortization contribution.

Retirement: Retirement before age 65, the general normal retirement age, generally produce actuarial losses. Retirement after age 65, the general normal retirement age, produces actuarial gains for the pension plan.

Disability: Because disability benefits are a full accrued retirement benefit paid at an early age, disabilities in excess of the disability assumption produce an actuarial loss.

Terminations: Because a terminating employee releases more liability than the person takes in a refund, terminations in excess of the actuarial assumption will produce an actuarial gain unless the terminating member ultimately qualifies for a combined service annuity.

Mortality: Mortality (the number of deaths) greater than assumed produces an actuarial gain with respect to annuitants, with respect to disabilitants, and, unless a substantial survivorship benefit is involved, with respect to active members.

The Mercer Human Resources Consulting experience study and presentation materials indicate that the PERA-P&F retirement experience 1997-2001 occurred in significantly greater numbers than expected from age 50 through age 60 and occurred in somewhat smaller numbers than expected from age 61 through age 68 and was unfavorable. The study also indicates that the PERA-P&F disability experience 1997-2001 occurred in significantly greater numbers than expected (168 percent of expected), especially at ages 40-54 and was unfavorable. The study covering the frequency of pre-retirement terminations indicates that fewer terminations occurred than expected (84 percent of expected), especially at ages 20-34 and especially with respect to active members with three or more years of service credit (71 percent of expected) and was unfavorable. With respect to annuitant mortality, the study also indicates that retiree deaths were somewhat less frequent than expected (86 percent of expected for both males and females) and was unfavorable. For disabilitant mortality, the study indicates that disability benefit recipient deaths were significantly fewer than expected (26 percent of expected), but that the group was too small to be credible. The study indicates, for active member mortality, that male active member deaths were significantly less frequent than expected (30 percent of expected), thus unfavorable, and that the female active member death experience was not credible. With respect to salary increases, the study indicates that salary increases have been significantly smaller than expected for all ages, which was favorable. The study also indicates that total payroll growth has generally exceeded the expectation based on the actuarial assumption, but the assumption relates only to the amortization of any unfunded actuarial accrued liability.

The Mercer Human Resources Consulting experience study thus suggests unfavorable experience with respect to the retirement age assumption, the disability assumption, the termination assumption, the annuitant mortality assumption, and the disabilitant mortality assumption and suggests favorable experience with respect to the active member mortality assumption, the salary increase assumption, and the payroll growth assumption.

A copy of the Mercer Human Resources Consulting July 11, 2002, presentation materials and the December 10, 2002, experience study are attached.

Summary of the PERA-P&F Recommended Actuarial Assumption Changes

Mercer Human Resources Consulting, the consulting actuary retained by the Public Employees Retirement Association (PERA), has recommended and the PERA Board of Trustees has adopted several actuarial assumptions changes, pending approval by the Commission under Minnesota Statutes, Section 356.215, Subdivision 18. The actuarial assumption changes have been submitted to the consulting actuary retained by the Commission, Thomas K. Custis, F.S.A., for his review and comment. A copy of the proposed actuarial assumption changes and a copy of Mr. Custis' supportive review are attached.

The following compares the proposed actuarial assumption changes for PERA-P&F:

Assumption Type	Current Assumption	Proposed Assumption Change
1. Interest	8.5 percent pre-retirement; 6 percent post-retirement	No change
2. Individual Salary Increase	Select and ultimate assumption	No change
3. Total Payroll Growth	6.0 percent	No change
4. Retirement Rates	Probability table (five percent retirement at age 50, to 30 percent retirement at age 55, to 100 percent retirement at age 70)	Probability table (10 percent retirement at age 50, to 30 percent retirement at age 55, to 100 percent retirement at age 70)
5. Optional Annuity Form Election	40 percent of males and 15 percent of females select 50% joint and survivor option 45 percent of males and 15 percent of females select 100% joint and survivor option	No change
6. Disability Rates	Probability table (0.13 percent at age 25, to 0.6 percent at age 49, to 2.15 percent at age 59)	Probability table (slight increase ages 40-42, greater increase ages 43- to 58)
7. Separation/Terminatio n Rates	Select and ultimate assumption: (4.63 percent at age 25, to 1.83 percent at age 35, to 0.91 percent at age 45)	Select and ultimate assumption: (significant reduction at ages 20-29, modest reduction at ages 30-39)
8. Annuitant Mortality	1983 GAM Table for males and females	1983 GAM Tables set back one year for males and females
9. Disabilitant Mortality	1965 Railroad Retirement Board Rates	1965 Railroad Retirement Board Rates to age 40, graded to 1983 GAM with one-year setback over age 59
10. Active Member Mortality	1983 GAM Table set back five years for males and females	1983 GAM Table set back six years for males and females
11. Combined Service Annuity Loading	No active member liability load; 30 percent former member liability load.	No change

Draft Resolution Approving Actuarial Assumption Changes

Draft Resolution 03-1 implement changes in the actuarial assumptions regarding retirement rates, disability rates, termination rates, annuitant mortality, disabilitant mortality, and active member mortality in the Public Employees Police and Fire Retirement Plan (PERA-P&F). The recommended actuarial assumption changes are summarized above in the section Summary of the PERA-P&F Recommended Actuarial Assumption Changes.

Analysis and Discussion

Draft Resolution 03-1 implements the actuarial assumption changes for the Public Employees Police and Fire Retirement Plan (PERA-P&F) as recommended by Mercer Human Resource Consulting, the actuarial consultant retained by the Public Employees Retirement Association (PERA), and approved by the PERA Board. The actuarial assumption change recommendations raise several pension and related public policy issues that the Commission may wish to consider, after taking testimony from interested parties, as follows:

1. Appropriateness of Recommended Actuarial Assumption Changes in Light of Recent Experience in General. The policy issue is the general thrust of the match between the actuarial assumption change recommendation forwarded by the PERA Board for the Public Employees Police and Fire Retirement Plan (PERA-P&F) and the deviations of the recent experience of PERA-P&F from the current actuarial assumptions as disclosed in the special PERA-P&F experience study and the recent PERA-P&F actuarial valuation experience gain and loss assessments. Because of the time involved and the technical ability likely required, the Commission and the Commission staff are not in the best position to determine the extent of the match between the recommended actuarial assumption changes and the recent experience results. The primary check that the Commission necessarily will rely on is the review by its consulting actuary, Thomas K. Custis, F.S.A., of Milliman USA, of the experience study and actuarial assumption change development work of Mercer Human Resource Consulting undertaken on behalf of the PERA Board. A January 31, 2003, letter from Thomas Custis to Bonnie Wurst of Mercer Human Resources Consulting regarding the PERA-P&F assumption changes is attached. Mr. Custis may wish to be afforded a chance to further amplify his assessment of the proposed assumption changes.

2. Match Between the Recent PERA-P&F Experience and the Proposed Actuarial Assumption Changes Specifically. The additional policy issue, related to the first policy issue, is the specific evidence that recent PERA-P&F plan experience supports the proposed package of actuarial assumption changes. The termination assumption change and the mortality assumption changes potentially merit some additional scrutiny. The termination results, actual to expected, showed some variability year to year over the four-year period, as follows:

Terminations

	2000-2001			1999-2000			1998-1999			1997-1998		
Age	Actual	Expected	Actual/ Expected	Actual	Expected	Actual/ Expected	Actual	Expected	Actual/ Expected	Actual	Expected	Actual/ Expected
20-24	5	16.80	30%	11	15.26	72%	5	14.29	35%	6	12.05	50%
25-29	32	51.94	62%	36	51.83	69%	50	50.33	99%	37	48.31	77%
30-34	38	46.56	82%	35	43.25	81%	34	40.51	84%	22	38.08	58%
35-39	30	29.59	101%	20	28.28	71%	29	27.30	106%	26	25.25	103%
40-44	17	17.76	96%	22	17.29	127%	20	16.88	118%	24	15.10	159%
45-49	14	11.71	120%	17	11.52	148%	18	11.31	159%	10	9.01	111%
50-54	10	3.15	317%	4	3.33	120%	0	3.31	0%	6	2.37	253%
55-59	5	0.13	3846%	2	0.16	1250%	3	0.17	1765%	4	0.14	2857%
60-64	0	0.00		0	0.00		0	0.00		2	0.00	
65+	1	0.00		0	0.00		0	0.00		0	0.00	
	152	177.64	86%	147	170.92	86%	159	164.10	97%	137	150.31	91%

While it is clear that the current assumption overestimates early age terminations, and needs to be changed, it is not clear that the proposed new assumption is the optimal choice. Many PERA-P&F active members are deputy sheriffs in rural counties, where there may not be a unionized workforce and where there is considerable turnover whenever a new county sheriff is elected. If a large change in incumbent rural count sheriffs occurred during the experience study period, the turnover experience would be skewed. The Commission should consider taking additional testimony from PERA and its consultant and from Mr. Custis about the appropriateness of the proposed new assumption in light of the recent PERA-P&F experience. The proposed changes in the active member mortality table and the annuitant mortality table are an additional one-year setback in each case, but the difference between the actual experience and the expected experience was very significant for active members and was not so very significant for annuitants. Again, the Commission may wish to consider taking additional testimony from PERA, the PERA consultant, and Mr. Custis about how optimal the new assumption will likely be in predicting future experience if that experience mirrors the recent PERA-P&F experience.

3. <u>Conformity with Minnesota Statutes, Section 356.215, and the Commission's Standards for Actuarial Work</u>. The policy issue is the conformity of the experience study and the proposal for actuarial assumption changes with the applicable law and governing regulatory requirements. The December 10, 2002, experience study of the Public Employees Police and Fire Retirement Plan was prepared by Bonnie Wurst and Julie Thompson of Mercer Human Resource Consulting, but the actuarial credentials of the two individuals was not specified in the document. Minnesota Statutes, Section 356.215, Subdivision 1, Paragraph (c), defines an "approved actuary" for the preparation of actuarial valuations and experience studies, requiring that the preparer be regularly engaged in the provision of actuarial services and either having at least 15 years of service to major public employee retirement plans or having the credential "Fellow of the Society of Actuaries." Without any information provided in the experience report, it is not possible to determine whether Ms. Wurst or Ms. Thompson is an approved actuary under State law. While the results are not invalidated by the potential failure of the report's preparers to meet the approved actuary definition, the Commission sets a poor precedent for the future if it uncritically accepts a report and acts upon recommendations that were not prepared by an approved actuary. The Standards for Actuarial Work, last revised and approved by the Commission in 2001, requires, in Section V, Subpart D., Item (4), that any proposal to prepare an experience study for a number of plans, including PERA-P&F, must be approved by the Commission before the preparation of the study. The Commission was not consulted before the preparation of the PERA-P&F experience study and did not pre-approve the study. If PERA had consulted with the Commission as required in the Standards, the PERA-P&F experience study request likely would have been approved, but it may have been combined with a broader study of related plans, the State Patrol Retirement Plan, the State Correctional Employees Retirement Plan of the Minnesota State Retirement System (MSRS-Correctional), and the Local Government Correctional Employees Retirement Plan of the Public Employees Retirement Association (PERA-Correctional), thus addressing the issue raised in point 6.

4. <u>Alternative Course of Preparing the Experience Study</u>. The policy issue is the greater advisability of the PERA Board using the consulting actuarial firm retained by the Commission rather than its consultant in preparing the PERA-P&F experience study. When the last PERA-P&F experience study was prepared almost a decade ago, the study was prepared by Milliman & Robertson, Inc., the Commission-retained actuarial firm, which also prepares the official regular actuarial valuations of the retirement plan. PERA decided to break with the 1995 precedent and have its actuarial consultant prepare the experience study on this occasion, although it is not clear that greater detail, greater accuracy, or greater precision was gained by avoiding the Commission-retained actuary. The Commission may wish to take testimony from PERA about its decision to use its actuarial consultant to prepare the PERA-P&F experience study rather than using Milliman USA.

5. <u>Unclear Impact of the 1999 Police and Fire Consolidation Account Merger on the PERA-P&F Experience Study</u>. The policy issue is the manner in which the 1999 merger of the local police and paid fire consolidation accounts into PERA-P&F was handled in preparing the experience study and the impact that the merger may have had on the results of the study. The December 10, 2002, PERA-P&F experience study indicates, on pages 15 and 21, that the 1999 consolidation account merger had an effect on both the number of early retirements and the number of disabilities that occurred, but does not discuss the impact of that unique event specifically, and does not indicate how the merger was taken into account in preparing the recommended changes in retirement rates and disability rates, which are explained (in the December 10, 2002, document, but not in the February 19, 2003, assumption change recommendations) as better reflecting actual experience over the study period. An argument can be made that the experience study was unduly affected by the consolidation account merger in the middle of the study period and that the experience study would have been better if it was rescheduled for two years hence, after the merger phenomenon could be fully captured in the study period. The Commission may wish to take testimony from the PERA consultant and from Mr. Custis about the effects of the 1999 consolidation accounts merger on the experience study and whether the merger midway through the experience study could provide misleading results.

6. Potential Need to Refine Other Public Safety Retirement Plan Actuarial Assumptions. The policy issue is the need to consider the other Minnesota public safety employee retirement plans in considering PERA-P&F actuarial assumption changes, since the benefit plans for each are similar (correctional plans) or significantly identical (State Patrol Plan) and the workforces are likely to be relatively similar. The current actuarial assumptions governing the MSRS-Correctional Plan and the PERA-Correctional Plan are largely or wholly identical to each other, while the current actuarial assumptions governing the State Patrol Retirement Plan and the PERA-P&F are very different. Until experience studies are performed for the State Patrol Plan, MSRS-Correctional, and PERA-Correctional, the Commission cannot reasonably conclude that the frailties of the current PERA-P&F actuarial assumptions are not replicated in the other three public safety retirement plans.

7. Likely Actuarial Valuation Impact of the Proposed PERA-P&F Actuarial Assumption Changes. The policy issue is the impact that the proposed PERA-P&F retirement assumption changes are likely to have on the funded condition and financing requirements of the retirement plan. If the assumption change recommendations accurately capture the trend line of recent experience and are deemed by the Commission to be accurate predictions of future PERA-P&F experience, the assumption changes should be approved even if the actuarial impact of them on PERA-P&F is adverse. The actuarial valuation process is intended to provide policymakers and others with an accurate picture of the funded condition and financial requirements of a public pension plan and that process is not furthered if it relies on incorrect or inadequate assumptions. If a trendline is established in recent experience, that trendline should be reflected in actuarial assumption changes, even if those assumption changes make the financing position of various plans appear worse than it appeared previously. While an adverse funding and financing impact of proposed assumption changes should not become a binding argument against the changes if the case is well made that the current actuarial assumptions are inadequate, the impact will underscore the need to formulate accurate and reliable future assumptions. While the PERA consultant did not provide detailed cost impact results of the proposed PERA-P&F actuarial assumption changes, the consultant did provide sufficient results for the Commission staff to derive a more detailed picture of the PERA-P&F 2002 actuarial valuation under the proposed actuarial assumptions, as follows:

	2002 Valuation Results		Impact of Proposed Assumption Change*		Resulting Valuation Results – 2002*	
Membership						
Active Members		9,940				9,940
Service Retirees		4,191				4,191
Disabilitants		574				574
Survivors		1,206				1,206
Deferred Retirees		637				637
Nonvested Former Members		663				663
Total Membership		17,211				17,211
Funded Status						
Accrued Liability		$3,886,311,000		$508,862,000		$4,395,173,000
Current Assets		$4,707,255,000		--		$4,707,255,000
Unfunded Accrued Liability		($820,944,000)		$508,862,000		($312,082,000)
Funding Ratio	121.12%		(14.02%)		107.10%	
Financing Requirements						
Covered Payroll		$541,250,000				$541,250,000
Benefits Payable		$212,405,000				$212,405,000
Normal Cost	20.22%	$109,474,000	2.20%	$11,908,000	22.42%	$121,382,000
Administrative Expenses	0.12%	$650,000	0.00%	$0	0.12%	$650,000
Normal Cost & Expense	20.34%	$110,124,000	2.20%	$11,908,000	22.54%	$122,032,000
Normal Cost & Expense	20.34%	$110,124,000	2.20%	$11,908,000	22.54%	$122,032,000
Amortization	(7.26%)	($39,295,000)	2.30%	$12,449,000	(4.96%)	($26,846,000)
Total Requirements	13.08%	$70,829,000	4.50%	$24,357,000	17.58%	$95,186,000
Employee Contributions	6.20%	$33,558,000			6.20%	$33,558,000
Employer Contributions	9.30%	$50,336,000			9.30%	$50,336,000
Employer Add'l Cont.	0.00%	$0			0.00%	$0
Direct State Funding	0.00%	$0			0.00%	$0
Other Govt. Funding	0.00%	$0			0.00%	$0
Administrative Assessment	0.00%	$0			0.00%	$0
Total Contributions	15.50%	$83,894,000			15.50%	$83,894,000
Total Requirements	13.08%	$70,829,000	4.50%	$24,357,000	17.58%	$95,186,000
Total Contributions	15.50%	$83,894,000	--		15.50%	$83,894,000
Deficiency (Surplus)	(2.42%)	($13,065,000)	4.50%	$24,357,000	2.08%	$11,292,000

*Note: The impact and result figures reflect the likely impact of the assumption change only. Because of recent investment value declines, the PERA-P&F total actuarial requirement is also likely to increase from a decline in current pension fund asset values and the consequent impact on the reverse amortization procedure.

8. Need for Consequent PERA-P&F Contribution Rate Changes. The policy issue is the need to increase PERA-P&F member and employer contribution rates to offset the predicted actuarial impact of the proposed actuarial assumption changes. If the PERA-P&F assumption changes are approved by the

Commission and made effective for the July 1, 2003, PERA-P&F valuation, and if the actuarial impact replicates the impact estimate provided by the PERA consultant, increases in the PERA-P&F contribution rates will be necessary during the 2004 Legislative Session to maintain the plan's fiscal integrity. The Commission's Principles of Pension Policy, relating to the allocation of the funding burden between members and employers, would suggest that increases occur in both member and employer contribution rates. The applicable principles (II.D.3.a. and c.) provide:

> 3. Allocation of Funding Burden Between Members and Employers
>
> a. Retirement benefits should be financed on a shared basis between the public employee and the public employer.
>
> c. For protective and public safety employees covered by a statewide public pension plan, the employee should pay forty percent of the total actuarial costs of the defined benefit pension plan and the employer should pay sixty percent of the total actuarial costs of the defined benefit pension plan.

The likely total actuarial requirement of the PERA-P&F Plan following the proposed actuarial assumption changes will increase from 13.08 percent to 17.58 percent. The following compares the allocation of the current PERA-P&F funding burden between its active members and employers and suggests the burden allocation with a 17.58 percent PERA-P&F total actuarial requirement under the Commission's policy:

	2002 Valuation	Adjusted 2002 Results
Total Financial Requirement	13.08%	17.58%
Member Contribution	6.20%	7.03%
Employer Contribution	9.30%	10.55%
Burden Portion Member/Employer	47.40%/52.60%	40.00%/60.00%

9. Police State Aid and Additional Amortization Aid Impact of Employer Contribution Increase. The policy issue is the impact of a potential PERA-P&F employer contribution increase on the Police State Aid program and the Additional Amortization Aid program. The Police State Aid program was initially established in 1971 (Laws 1971, Chapter 695). The Police State Aid program is funded principally from a portion of the insurance premium taxes collected the State of Minnesota. Of the total amount of insurance premium taxes collected, an amount equal to either 104 percent of the amount of the premium taxes reported on the Minnesota Aid to Police Premium Report or two percent of the amount of the premiums reported on the Minnesota Aid to Police Premium Report is dedicated as Police State Aid. From the dedicated Police State Aid amount is subtracted the amount required to pay the cost and expense of the State Auditor's Office for audits or exams of police relief associations. Police State Aid is allocated on the basis of the number of full-time peace officers employed by each Minnesota governmental employer, up to the amount of that governmental employer's public safety employer pension plan employer contribution. The balance of the insurance premium taxes that were initially dedicated to Police State Aid above the employer pension plan contribution requirement, known as excess Police State Aid, or $11.3 million in 2002, after deduction of the $1,000,000 dedicated funding of the statewide ambulance service personnel longevity award and incentive program and after deduction of any funding dedicated to a potential police officer stress reduction program, if enacted, is allocated one-half to the Additional Amortization State Aid program and one-half to the State General Fund. An increase in the PERA-P&F employer contribution of 1.25 percent of pay, or $6.8 million based on the Fiscal Year 2002 covered payroll, will significantly reduce the amount of excess Police State Aid, which in turn will reduce the amount of Additional Amortization State Aid payable to the 19 municipalities which have or had local police or paid firefighter relief associations that are not fully funded and will reduce the State General Fund cancellation.