TO:	Members of the Legislative Commission on Pensions and Retirement
FROM:	Ed Burek, Deputy Director
RE:	S.F. 157 (Tomassoni); H.F. 94 (Rukavina): Eveleth Police and Fire Trust Fund; Ad Hoc Post-Retirement Increase
DATE:	March 15, 2005

Summary of S.F. 157 (Tomassoni); H.F. 91 (Rukavina)

S.F. 157 (Tomassoni); H.F. 94 (Rukavina) provides the Eveleth Police and Salaried Firefighter Trust Fund benefit recipients (retired police officers and firefighters who receive service pensions, and surviving spouses) with a permanent ad hoc post-retirement increase of $100 per month, retroactive to January 1, 2005. Local approval is required.

Background

The Eveleth Salaried Firefighters Relief Association and the Eveleth Police Relief Association were both created in 1935 to provide pension coverage to Eveleth salaried firefighters and to Eveleth police officers, respectively. In 1977 (Laws 1977, Chapter 61), the active members of each relief association had their pension coverage transferred to the Public Employees Police and Fire Plan (PERA-P&F), with the pension coverage for any existing benefit recipients of the two relief associations transferred to a joint Eveleth retired police and firefighters retirement trust fund, which is required to be managed by the City of Eveleth.

The coverage transfer for active members was prompted by active member dissatisfaction over the modest benefit coverage provided by the two local relief associations. At the time of the 1977 coverage transfer, the two relief associations provided very modest benefits compared to other local relief associations.

The Eveleth Police and Fire Trust Fund pays benefits to a small group of pre-1977 retirees and survivors or those retirees. At the current time, there is only one retired member and four surviving spouses of deceased service pensioners receiving benefits from the trust fund. The retiree currently receives $1,350 per month, and the monthly surviving spouse benefits range from $1,053.75 to $1,207.50 per month. The total combined benefits paid to the trust fund retired and surviving spouse members is $5,873.75 per month or $70,485 per year. The retiree is 97 years old. The youngest surviving spouse is 86 years old, two are 88 years old, and the oldest is 95 years old.

Under 1982 legislation, the joint trust fund was required to be actuarially funded and to be fully amortized (assets equal to accrued liability) as of December 31, 1991. The city did not meet its obligations to the trust fund and the fund did not meet the 1991 amortization target date. Through a 1993 special law, the amortization target date was reset to December 31, 1998. The City of Eveleth did not approve that special law until December 6, 1994, and no significant progress on the amortization of the unfunded liability occurred. In 1995, special legislation was enacted that conditioned the annual payment of the ad hoc post-retirement adjustment on making the required amortization contribution.

In 1998, the Legislature again revised its policy regarding this trust fund, giving up on the effort to use actuarial funding and moving to a current disbursements or "pay-as-you-go" funding approach. The city was required in law, however, to contribute an amount sufficient, given the investment return of the fund, to cover the benefit payments for the coming year.

The Eveleth trust fund has no mechanism to automatically provide annual benefit increases to retired members and survivors. This lack of an automatic post-retirement adjustment mechanism would cause the value of any given benefit to erode over time due to the effect of inflation if ad hoc increases were not granted. In response, the Legislature has granted numerous ad hoc benefit increases to the benefit recipients of this trust fund over the years, as follows:

Eveleth Trust Fund Post-Retirement Adjustments

Year	Post-Retirement Adjustment Amount	Effective Date
1979 (Laws 1979, Chapter 131)	$30 per month	January 1, 1979
1981 (Laws 1981, Chapter 68)	$40 per month	January 1, 1981
1982 (Laws 1982, Chapter 574)	$35 per month	January 1, 1982

Year	Post-Retirement Adjustment Amount	Effective Date
1983 (Laws 1983, Chapter 55)	$10 per month	January 1, 1983
1984 (Laws 1984, Chapter 574)	$10 per month	January 1, 1984
1985 (Laws 1985, Chapter 261)	$25 per month	January 1, 1985
1986 (Laws 1986, Chapter 458)	$25 per month	January 1, 1986
1988 (Laws 1988, Chapter 709)	$50 per month	January 1, 1988
1989 (Laws 1989, Chapter 319)	$100 per month	January 1, 1989
1991 (Laws 1991, Chapter 27)	$75 per month	January 1, 1991
1993 (Laws 1993, Chapter 160)	$100 per month	January 1, 1993
1995 (Laws 1995, Chapter 262, Article 9, Section 1)	$100 per month	January 1, 1995
1997 (Laws 1997, Chapter 241, Article 2, Section 19)	$100 per month	January 1, 1997
1999 (Laws 1999, Chapter 222, Article 3, Sections 1 and 2)	$100 per month	January 1, 1999
2001 (First Special Session Laws 2001, Chapter 10, Article 15, Section 3)	$100 per month	January 1, 2001
2003 (First Special Session Laws 2003, Chapter 12, Article 10, Section 3)	$100 per month	January 1, 2003
Total Increases:	$1,000 per month	

In 1977, the average benefit payable to retired members of the Eveleth Police and Fire Trust Fund was $253.75 per month and the average benefit payable to survivors of the Eveleth Police and Fire Trust Fund was $111.07 per month. With the special post-retirement adjustments enacted in 1979-2003, those average benefits would have increased to $1,350 per month for retired members, a 432 percent increase and to $1,111.07 per month for survivors, a 919 percent increase. Over the period 1977 to 2004, the Consumer Price Index (CPI) increased 212 percent. If the average benefits were adequate in 1977, the purpose for the special post-retirement adjustments would be to replace the impact of inflation and the pattern of past increases would be excessive. Since the 1977 level of average benefits was not adequate, which is why the Eveleth Firefighters Relief Association and the Eveleth Police Relief Association were terminated and their active membership shifted to the Public Employees Police and Fire Retirement Plan (PERA-P&F), the past post-retirement adjustments serve the dual purpose of remedying past benefit inadequacies as well as replacing the lost purchasing power from inflation.

Discussion

S.F. 157 (Tomassoni); H.F. 94 (Rukavina) provides the Eveleth Police and Salaried Firefighter Trust Fund benefit recipients (retired police officers and firefighters who receive service pensions, and surviving spouses) with a permanent ad hoc post-retirement increase of $100 per month, retroactive to January 1, 2005. Local approval is required.

The proposed legislation raises the following pension and related public policy issues:

1. Need for Benefit Change. The policy issue is whether there is a sufficient need to provide a benefit increase for the Eveleth Police and Fire Trust Fund retired members and surviving spouses. There are now five benefit recipients (one retiree and four surviving spouses); the youngest recipient is age 86 and the oldest is age 97. The average age of the group is age 90.8 years old. Given the age of these individuals, it is possible that, at least for some, a benefit increase would serve simply to offset costs of other government programs providing assistance to the individual.

   The Commission may wish to consider how the survivor benefits provided by the trust fund compare to those being paid to the comparable PERA-P&F group. While the benefits provided by the trust fund were initially modest, these benefits have been enhanced considerably over the years by the ad hoc increases. Currently, the survivor benefits provided by the trust fund are not far behind those provided by the statewide PERA-P&F plan to comparable survivors. The 2003 PERA-P&F actuarial report indicated that the surviving spouse benefits paid by PERA-P&F to individuals age 85 and above was $17,815 per year, or $1,485 per month. The monthly surviving spouse benefits from the Eveleth trust fund now range from $1,054 to $1,208 per month for the surviving spouse group, all of whom are at least age 86. Given the current condition of the State Board of Investment Post Fund, the PERA-P&F survivors are receiving benefit increases matching inflation up to 2.5 percent per year, and can expect to receive no more than these modest increases into the foreseeable future. The $100 per month ad hoc benefit increases which have been granted to the Eveleth Trust Fund benefit recipients every other year have been more generous than those recently provided to PERA-P&F benefit recipients. When these $100 trust fund benefit increases are averaged over two years, the increases are generally less than five percent per year, but well above 2.5 percent. (A $100 increase every two years is approximately equivalent to a five percent annual increase for the trust fund survivor receiving the lowest surviving spouse benefit, $1,054 per month. The $100 per month increase every two years is somewhat less than five percent for those receiving the higher current benefits.) Thus, the gap between PERA-P&F survivors and those of the Eveleth Trust Fund is not great, and it is narrowing.

2. Consideration of Automatic Benefit Mechanism. Normally, there are advantages to building an automatic benefit increase mechanism into a plan, rather than continuing the biennial ad hoc increases through special legislation, but that may not be the case in this situation. With an automatic mechanism in place, retiree and survivor benefit adjustments, whether tied directly to inflation or set at some other reasonable level, could occur without a need for periodic legislative action. However, there would be some risk in considering some form of automatic increase for trust fund members in lieu of the ad hoc Eveleth trust fund proposals which periodically are requested. No actuarial reports are now required for this trust fund, and in the past the city did not make the contributions that the trust fund needed to amortize its unfunded pension obligation, as indicated in those reports. An automatic increase mechanism would create actuarial accrued liabilities, and the implications of those actuarial accrued liabilities would not be fully apparent due to the lack of periodic analysis that regular actuarial reports could provide. Given the very small number of individuals covered by the trust fund, the cost of actuarial work, if required, would be very expensive on a per-member basis.

   The Commission might also be concerned that an automatic increase mechanism, if not well designed, might create benefit levels over time that are excessive when compared to comparable plans or to recent inflation rates.

   Given the age of the individuals covered by the trust fund, it is unlikely that there will be many future bills requesting ad hoc increases for the trust fund members. The Commission may conclude that periodically hearing bills to consider an ad hoc increase for this group is the most reasonable course of action under the circumstances.

3. Financial Solvency of the Joint Trust Fund. The policy issue is the adequacy of the trust fund assets, and the willingness of the city to ensure that the assets are sufficient to meet the benefit payout needs. The most recent data staff has on the trust fund is from the Eveleth Fire and Police Retirees' Relief Association Annual Actuarial Valuation, December 31, 1997. While that information is now dated, it is the only information available. The requirement that this trust fund obtain an actuarial valuation was removed from state law shortly thereafter. As noted below, as of December 31, 1997, the trust fund had $213,309 in assets, $583,427 in accrued liabilities, and was 36.6 percent funded, and there were three retirees and eight survivors.

Eveleth Trust Fund Actuarial Data
December 31, 1997

	Actuarial Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities	Percent Funded
Retirees and Beneficiaries				
Retired Members (3)		$138,935		
Surviving Spouses (8)		444,492		
Surviving Children(0)		0		
Total (11)	$213,309	$583,427	$370,118	36.6%
Members with Deferred Benefits (0)	0	0	0	--
Active Members (0)	0	0	0	--
Total (11)	$213,309	$583,427	$370,118	36.6%

   The funding ratio shown above indicates that, as of the end of 1997, the remaining liabilities were large relative to the assets on hand. The total annual benefit payout under current law is $88,350. With the $100 per month per member increase proposed bill, the benefit annual benefit payout would increase to $96,750. Although the Commission does not have information on trust fund assets, the current annual benefit payout or the expected annual benefit payout with the ad hoc benefit increase granted is likely to be a large portion of the total trust fund assets.

   Although payouts are likely to be large relative to assets, the city does appear willing to ensure that money is available to meet trust fund payments and that the total financial burden on the city is not large. The total payout is modest in size and is likely to decrease in the future. The trust fund currently covers only five individuals.

4. Appropriate Size of the Benefit Increase and the Appropriate Design of the Increase. The policy issue is the nature of the increase, and its size. The bill follows the pattern established many years ago for this trust fund of providing an identical dollar increase for each benefit recipient, rather than an identical percentage increase. Apparently, this is the approach that the city and presumably the trust

fund members prefer. However, this approach results in percentage increases which differ between service pensioners and the survivor group. One can contend that the living costs increase over time in a percentage manner, and an equal percentage increase for all members of the trust fund is a preferable design. Under the fixed-dollar increases that have occurred in the past for trust fund members, and are again proposed in the current bills, the percentage increase will vary by member. Because the current survivors have annual benefits which are somewhat less than the service pensioners, a $100 per month increase creates a larger percentage increase than the service pensioner receives. There are also differences within the survivor group, because the current benefit amounts received within the survivor group varies. Given the current payments to the service annuitant, a $100 per month increase ($1,200 per year) would amount to a 7.4 percent increase for the two-year period or a percentage increase of about 3.7 percent per year. For the survivor currently receiving the largest survivor pension, $1,208 per month, $100 per month increase amounts to an 8.2 percent increase, or about a 4.1 percent increase per year. For the survivor with the lowest current benefit, $1,054 per month, a $100 per month increase creates a 9.4 percent increase, or about 4.7 percent per year.

While a flat $100 per month increase has conceptual problems, this is the approach which the city prefers judging by the nature of this request and those in the recent past. The Commission may wish to consider the size of the dollar increase. Through an amendment, this could be increased above $100, or decreased below it.

5. Local Approval. The policy issue is the extent of support by the City of Eveleth for the proposed legislation. To ensure that Commission time is productively used, the Commission has been unwilling to consider local plan benefit increase legislation unless the municipality supports the legislation. The city does support this legislation. Attached is a copy of minutes from an Eveleth City Council meeting in which the city is on record supporting the legislation.

Amendments

Four amendments are attached for Commission consideration.

LCPR05-035. This amendment could be used if the Commission wishes to avoid consideration of future legislative bills to provide an ad hoc benefit increase by shifting that responsibility to the city. The city would be authorized to provide increases, every other year, not to be less than $10 or more than $100 per month.

LCPR05-036. This amendment, an alternative to LCPR05-035, would authorize the city to provide annual benefit increases not to exceed the inflation rate as measured by the Consumer Price Index. The price index referred to in the amendment is the same index used for the State Board of Investment Post Fund.

LCPR05-037. This amendment could be used if the Commission wishes to revise the bills to provide an increase, specified in dollar terms, but differing from the $100 increase proposed under the bills.

LCPR05-038. This amendment could be used to amend the bills to provide a one-time percentage increase matching inflation rather than a dollar increase.