S.F. 2038 (Michel) — **H.F. 2173** (Larson)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): Bloomington Fire Relief Association

Relevant Provisions of Law: Minnesota Statutes, Sections 69.77, Subdivision 4; 356.215, Subdivision 8; and 356.216

General Nature of Proposal: Revise actuarial assumptions to reduce and stabilize city contributions

Date of Summary: April 5, 2005

Specific Proposed Changes

- Extends the amortization date from 2010 to 2031 and tie further changes to PERA-General amortization date.
- Increases interest (rate of return) assumption from five percent to six percent.
- Adopts variation on actuarial value of asset methodology currently used by Minneapolis relief associations.

Policy Issues Raised by the Proposed Legislation

1. Need for any Change. Whether this is a sufficient problem or burden on the city of Bloomington to warrant legislative action.
2. Investment Program Issues. Part of current funding problem is due to weak investment program over last decade and in part should be addressed by correcting investment problems.
3. Proposed Amortization Date Issues. The change from 2010 to 2031 may be too long an extension; no reason to tie the Bloomington Fire Relief Association amortization date to PERA-General's full funding date; no reason to revise Bloomington Fire Relief Association amortization date whenever PERA-General date changes.
4. Proposed Interest Rate Assumption Issue. Whether the proposed six percent rate is appropriate.
5. Proposed Actuarial Value of Assets Method. The proposed method may not be an effective smoothing technique and double counts some assets.
6. Nonseverable Provision. Bill includes nonseverable provision; unclear why provisions should be made nonseverable.

Potential Amendments

LCPR05-208 removes the nonseverable language from section 4 of the bill.

LCPR05-209 removes the language extending the Bloomington Fire Relief Association amortization date to 2031, causing the amortization date to remain as in existing law, December 31, 2010.

LCPR05-210, an alternative to LCPR05-209, eliminates the December 31, 2010 amortization date for the Bloomington Fire Relief Association and resets it to December 31, 2015.

LCPR05-211, an alternative to LCPR05-209 or LCPR05-210, sets the Bloomington Fire Relief Association amortization date ten years from the date that an unfunded liability first occurs, and resets it using rolling ten-year periods as long as an unfunded liability remains.

LCPR05-212 removes the increase in the interest rate (investment return rate) from the bill.

LCPR05-213, an alternative to LCPR05-213, could be used to change the interest rate from six percent, as proposed in the bill, to a rate to be set by the Commission. If the Commission chooses to keep the rate at five percent as in current law, the Commission should use LCPR05-212 rather than LCPR05-213.

LCPR05-214 will remove the proposed actuarial value of assets methodology from the bill, leaving the present procedure in place, which sets the actuarial value of assets equal to market value.

LCPR05-215, an alternative to LCPR05-214, would implement, for the Bloomington Fire Relief Association, the same system used to determine actuarial value of assets in the State Board of Investment funds, the first class city teacher fund associations, and Minneapolis Employees Retirement Association (MERF). That system is based on market value and past deviations between the past market values and the expected market values if assets have grown as expected given the interest rate assumption.