



TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director

RE: Consideration of Demographic Actuarial Assumption Change Recommendations Contained in the 2004-2009 Public Employees Police and Fire Retirement Plan Experience Study

DATE: September 9, 2011

Introduction

At the request of the Public Employees Retirement Association, the plan administrator for the Public Employees Police and Fire Retirement Plan (PERA-P&F), the Commission is scheduled to consider changes in seven actuarial assumptions recommended by Mercer, the actuarial consulting firm retained by PERA, for PERA-P&F in its 2004-2009 special experience study, to be effective for the July 1, 2011, and subsequent actuarial valuations.

Public Employees Police and Fire Retirement Plan

The Public Employees Police and Fire Retirement Plan (PERA-P&F), established in 1959 (Laws 1959, Ch. 650), replaced the Basic Program of the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General Basic Program) as the provider of retirement coverage for local law enforcement and firefighting personnel in local government who are not covered by a local police or paid firefighter relief association.

PERA-P&F, as of July 1, 2010, had 11,002 active members, 1,315 deferred retirees, 930 non-vested former members, 5,354 retirees, 859 disabilitants, and 1,413 survivors. PERA-P&F active members are age 40 and have 12.1 years of service credit on average. PERA-P&F deferred members are age 45.5 and have 8.8 years of service credit on average. PERA-P&F non-vested former members are age 44.7 and have one year of service credit on average. PERA-P&F service retirees receive an average annual annuity of \$48,027. PERA-P&F disabilitants receive an average annual benefit of \$44,383. PERA-P&F survivors receive an average annual benefit of \$26,866.

PERA-P&F active members are not covered by the federal Social Security program for their governmental public safety employment, with the person's total retirement coverage provided by the Minnesota public retirement plan unless the person and the person's employer contribute matching amounts to a deferred compensation program under Minnesota Statutes, Section 356.24.

Approval of Actuarial Assumption Changes

Under Minnesota Statutes, Section 356.215, Subdivision 18, added to the public pension plan actuarial reporting law in 1987 (Laws 1987, Ch. 259, Sec. 55), actuarial assumption change recommendations other than the major economic actuarial assumptions (interest, salary increase, and payroll growth) require approval by the Legislative Commission on Pensions and Retirement or the elapsing of a one-year period following submission to the Commission without Commission action before the use of the new actuarial assumption in preparing official actuarial valuations under Minnesota Statutes, Section 356.215

Special Experience Studies

Minnesota Statutes, Section 356.214, Subdivision 1, Paragraph (c), requires that experience studies be prepared quadrennially for the three largest Minnesota public retirement plans, the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General), and the Teachers Retirement Association (TRA).

Minnesota Statutes, Section 356.214, Subdivision 1, Paragraph (e) provides for the remaining nine statewide or major local Minnesota public employee retirement plans to be the subject of a special experience if the actuarial gain and loss analyses of the recent set of actuarial valuations of the retirement plan indicate that there is a persistent pattern of sizeable gains or losses.

The Standards for Actuarial Work of the Legislative Commission on Pensions and Retirement, last revised by the Commission in 2010, in Section VI, Part D, Paragraph (5), requires that the undertaking of the preparation of a special experience study must be approved by the Commission in advance of its preparation.

PERA-P&F 2004-2009 Experience Study Results and Actuarial Assumption Change Recommendations

The [2004-2009 experience study](#) for the Public Employees Police and Fire Retirement Plan, including Mercer's actuarial assumption change recommendations (pages 1-2, 8, 11, 13, 15, 17, 19, 21, 24-25, 28, and 31-36) and Mercer's assessment of the impact of the proposed actuarial assumption changes ([August 11, 2010, letter](#)) are attached.

Commission PERA-P&F Assumption Change Approval Motion

If the Commission decides to approve the demographic actuarial assumption changes recommended by Mercer and requested by the Public Employees Retirement Association, Motion LCPR11-M1 contains that approval.

_____ moves to approve the following actuarial assumptions for the Public Employees Police and Fire Retirement Plan, effective for the July 1, 2011, actuarial valuation report:

Healthy Post-Retirement Mortality Assumption

RP-2000 Annuitant Generational Mortality Table, with white collar adjustment and without set back or set forward

Disabled Retired Mortality Assumption

RP-2000 Annuitant Mortality Table, with white collar adjustment and with a set forward by eight years for males and by eight years for females

Healthy Pre-Retirement Mortality Assumption

RP-2000 Non-Annuitant Generational Mortality Table, with white collar adjustment and with a set back of two years for males and of two years for females

Withdrawal Rate Assumption

Ultimate Withdrawal Rates		Select Withdrawal Rates	
Age	Assumption	Years of Service	Assumption
20	6.01%	1	8.00%
21	5.25%	2	5.00%
22	4.62%	3	3.50
23	4.08%		
24	3.63%		
25	3.24%		
26	2.91%		
27	2.62%		
28	2.37%		
29	2.15%		
30	1.90%		
31	1.80%		
32	1.70%		
33	1.60%		
34	1.50%		
35	1.46%		
36	1.42%		
37	1.38%		
38	1.34%		
39	1.30%		
40	1.26%		
41	1.18%		
42	1.10%		
43	1.03%		
44	0.97%		
45	0.91%		
46	0.86%		
47	0.81%		
48	0.69%		
49	0.59%		
50	0.50%		
51	0.39%		
52	0.29%		
53	0.22%		
54	0.15%		
55	0.11%		
56	0.07%		
57	0.05%		
58	0.03%		
59	0.01%		
60+	0.00%		

Retirement Rate AssumptionActive Retirement Rates

Age	Assumption
50	13%
51	10%
52	10%
53	10%
54	13%
55	30%
56	20%
57	20%
58	20%
59	20%
60	25%
61	25%
62	35%
63	35%
64	35%
65	50%
66	50%
67	50%
68	50%
69	50%
70+	100%

Age of Beneficiary Assumption

Age difference of three years for males

Annuity Form Election Assumption

Annuity Form Election	Males	Females
Straight Life	15%	60%
25% Joint & Survivor	10%	5%
50% Joint & Survivor	20%	15%
75% Joint & Survivor	20%	5%
100% Joint & Survivor	35%	15%