

December 2009

Local Government Correctional Service Retirement Fund

Actuarial Valuation Report as of July 1, 2009

MERCER



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Highlights

This report has been prepared by Mercer for the Public Employees Retirement Association of Minnesota to:

- Present the results of a valuation of the Local Government Correctional Service Retirement Fund as of July 1, 2009.
- Review experience under the Plan for the year ended June 30, 2009.
- Provide reporting and disclosure information for governmental agencies and other interested parties.

Contributions

The following table summarizes important contribution information as described in the “Development of Costs” section.

Contributions	Actuarial Valuation as of	
	July 1, 2009	July 1, 2008
Statutory Contributions – Chapter 353E (% of Payroll)	14.58%	14.58%
Required Contributions – Chapter 356 (% of Payroll)	14.03%	13.50%
Sufficiency / (Deficiency)	0.55%	1.08%

The contribution sufficiency decreased from 1.08% of payroll to 0.55% of payroll. On a market value of assets basis, the plan moved from a sufficiency of 0.59% of payroll to a deficiency of (2.19%) of payroll. The primary reason for the decline in funding sufficiency is the less than expected return on assets.

The “Plan Assets” section provides detail on the plan assets used for the valuation including a development of the actuarial value of assets. The market value of assets earned (18.7%) for the plan year ending June 30, 2009. **Only 20% of the asset loss for the plan year just ended will be recognized in the July 1, 2009 actuarial value of assets. The remainder will be recognized over the next four years.** The actuarial value of assets earned 2.3% for the plan year ending June 30, 2009 as compared to the assumed rate of 8.50%.

Participant reconciliation and statistics are detailed in the “Participant Data” section. The “Actuarial Basis” section includes a summary of plan provisions and actuarial methods and assumptions used for the calculations in this report. The “Plan Accounting” section details the required accounting information for the Plan under GASB Statement No. 25 (as amended by GASB Statement No. 50).

There were no changes in actuarial assumptions since the July 1, 2008 valuation. Changes in methods and plan provisions are reflected in this report and summarized in the Actuarial Basis section.

Principal Valuation Results

A summary of principal valuation results from the current valuation and the prior valuation follows. Any changes in plan provisions, actuarial assumptions or valuation methods and procedures between the two valuations are described after the summary.

	Actuarial Valuation as of	
	July 1, 2009	July 1, 2008
Contributions (% of Payroll)		
Statutory – Chapter 353E	14.58%	14.58%
Required – Chapter 356	14.03%	13.50%
Sufficiency / (Deficiency)	0.55%	1.08%
Funding Ratios (dollars in thousands)		
Accrued Benefit Funding Ratio		
– Current assets (AVA)	\$ 217,577	\$ 192,937
– Current benefit obligations	215,678	181,601
– Funding ratio	100.88%	106.24%
Accrued Liability Funding Ratio		
– Current assets (AVA)	\$ 217,577	\$ 192,937
– Market value of assets (MVA)	167,300	183,815
– Actuarial accrued liability	229,383	192,572
– Funding ratio (AVA)	94.85%	100.19%
– Funding ratio (MVA)	72.93%	95.45%
Projected Benefit Funding Ratio		
– Current and expected future assets	\$ 404,073	\$ 397,555
– Current and expected future benefit obligations	393,991	351,035
– Funding ratio	102.56%	113.25%
Participant Data		
Active members		
– Number	3,715	3,710
– Projected annual earnings (000s)	\$ 172,770	\$ 163,937
– Average annual earnings (projected)	\$ 46,506	\$ 44,188
– Average age	39.7	39.2
– Average service	5.6	5.1
Service retirements	267	208
Survivors	20*	15
Disability retirements	101	92
Deferred retirements	1,683	1,520
Terminated other non-vested	1,525	1,473
Total	7,311	7,018

* Difference from number of survivors shown on page 14 is due to the inclusion of multiple survivors of members.

Effects of Changes

The following changes in plan provisions and methods were recognized as of July 1, 2009:

Dissolution of Minnesota Post Retirement Investment Fund (Post Fund)

Since the Post Fund composite funding ratio was less than 80 percent as of June 30, 2008, the Post Fund was dissolved, and assets were transferred back to PERA and merged with the respective active member fund. The transfer of assets and liabilities occurred on June 30, 2009.

In conjunction with the dissolution, benefit recipients will receive future annual 2.5% cost-of-living adjustments (COLA) post-retirement.

The waiting period and proration schedule for the COLA paid in the fiscal year were also revised.

The Post Fund dissolution (other than the asset method change discussed below) and COLA changes did not have an impact on the valuation results.

Asset Method

For the purpose of determining the actuarial value of assets, the Post Fund asset loss for the fiscal year ending June 30, 2009 will be recognized incrementally over five years at 20% per year, similar to the smoothing of active fund assets. Prior to June 30, 2009, Post Fund asset gains and losses were not smoothed.

The change in the actuarial asset method for Post Fund assets reduced the required contribution by 0.13% of pay.

Certification

Mercer has prepared this report exclusively for Trustees of the Local Government Correctional Retirement Fund and the Legislative Commission on Pensions and Retirement (LCPR) for the following purposes:

- Present the results of a valuation of the Local Government Correctional Retirement Fund as of July 1, 2009 as required by Minnesota Statutes Section 356.215 and the requirements of the Standards of Actuarial Work established by the Minnesota Legislative Commission on Pensions and Retirement
- Review plan experience for the year ended June 30, 2009
- Provide the Annual Required Contribution for the period beginning July 1, 2009
- Provide reporting and disclosure information for financial statements for governmental agencies pursuant to GASB Statements Numbers 25 (as amended by GASB 50) and 27.

This valuation report may not be relied upon for any other purpose or by any party other than the Trustees, the LCPR, or the Plan's auditors solely for the purpose of completing an audit related to the matters herein. Mercer is not responsible for the consequences of any unauthorized use.

A valuation report is a snapshot of a plan's estimated financial condition at a particular point in time; it does not predict a plan's future financial condition or its ability to pay benefits in the future.

Over time, a plan's total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of people paid benefits, plan expenses and the amount earned on any assets invested to pay the benefits. These amounts and other variables are uncertain and unknowable at the valuation date, but are predicted to fall within a reasonable range of possibilities.

To prepare this report, *Actuarial Assumptions*, as described in the Actuarial Basis section, are used to select a single scenario from a range of possibilities. The results of that single scenario are included in this report. However, the future is uncertain and the plan's actual experience will differ from those assumptions; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different. Actuarial assumptions may also be changed from one valuation to the next because of changes in mandated requirements, plan experience, changes in expectations about the future and other factors. Due to the limited scope of our assignment, we did not perform, nor do we present, an analysis of the potential range of future possibilities and scenarios.

Because actual plan experience will differ from the assumptions, decisions about benefit changes, investment policy, funding amounts, benefit security and/or benefit-related issues should be made only after careful consideration of alternative future financial conditions and scenarios, and not solely on the basis of a valuation report or reports.

Data and plan provisions

To prepare this report, Mercer has used and relied on financial data submitted by the Fund as of June 30, 2009, as well as participant data supplied by the Fund as of June 30, 2009. We have reviewed the financial and participant data for internal consistency and general reasonableness, but we have not verified or audited any of the data or information provided. We have also used and relied on the plan documents, including amendments, supplied by the Fund. A summary of the plan provisions valued is presented in our report. The Fund is solely responsible for the accuracy, validity and comprehensiveness of this information. If the data or plan provisions supplied are not accurate and complete, the valuation results may differ significantly from the results that would be obtained with accurate and complete information; this may require a later revision of this report.

Certification



Actuarial Calculations, Methods and Assumptions

To the best of our knowledge and belief, this report is complete and accurate and all costs, liabilities and other factors under the plan were determined in accordance with generally accepted actuarial principles and procedures, and in accordance with the requirements of Minnesota Statutes Section 356.215 and the requirements of the Standards of Actuarial Work established by the LCPR. The economic assumptions, including discount rates, are set in Minnesota Statutes, and the remaining assumptions are adopted by the Trustees and the LCPR. This valuation is based on assumptions, plan provisions, methods and other parameters as summarized in this report. If this information is inaccurate or incomplete or does not reflect current statutes, regulations or Board directives, the reader of this report should not rely on the valuation results and should notify Mercer promptly. In our opinion, this report fully and fairly discloses the actuarial position of the plan on an ongoing basis.

Professional qualifications

We are available to answer any questions on the material in this report or to provide explanations or further details as appropriate. The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. In addition, Mr. Dickson meets the requirements of "approved actuary" under Minnesota Statutes, Section 356.215, Subdivision 1, Paragraph (c). We are not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest, that would impair the objectivity of our work.

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

	12/3/2009
Gary D. Dickson, FSA, EA, MAAA Principal	Date
	12/3/2009
Bonita J. Wurst, ASA, EA, MAAA Principal	Date
Mercer 333 South 7th Street, Suite 1600 Minneapolis, MN 55402-2427 612 642 8600	

Supplemental Information

The remainder of the report includes information supporting the results presented in the previous sections.

- **Plan assets** presents information about the plan's assets as reported by the Public Employees Retirement Association and the Minnesota State Board of Investments. The fund assets represent the portion of total fund liabilities that has been funded.
- **Membership data** presents and describes the membership data used in the valuation.
- **Development of costs** shows the liabilities for plan benefits and the derivation of the contribution amount.
- **Actuarial basis** describes the plan provisions, as well as the methods and assumptions used to value the plan. The valuation is based on the premise that the plan is ongoing.
- **Plan accounting under GASB 25 (as amended by GASB 50)** shows the disclosures required by GASB Statement No. 25 as amended by GASB Statement No. 50.
- **Glossary** defines the terms used in this report.

Plan Assets

Statement of Plan Net Assets for Year Ended June 30, 2009 *(Dollars in Thousands)*

	Market Value
<hr/>	
Assets in Trust	
▪ Cash, equivalents, short term securities	\$ 4,043
▪ Fixed income	33,159
▪ Equity	100,458
▪ SBI Alternative	29,467
Total assets in trust	<hr/> \$ 167,127
 Assets Receivable	 442
 Amounts Payable	 (269)
 Net assets held in trust for pension benefits	 \$ 167,300

Plan Assets

Reconciliation of Plan Assets

The following exhibit shows the revenue, expenses and resulting assets of the Fund as reported by the Public Employees Retirement Association and the Minnesota State Board of Investment, for the Plan's Fiscal Year July 1, 2008 to June 30, 2009.

Change in Assets (Dollars in Thousands)	Non-MPRIF Assets	MPRIF Reserve	Market Value
1. Fund balance at market value at July 1, 2008	\$ 175,815	\$ 8,000	\$ 183,815
2. Contributions			
a. Member	9,409	0	9,409
b. Employer	14,124	0	14,124
c. Other sources	0	0	0
d. Total contributions	<u>23,533</u>	<u>0</u>	<u>23,533</u>
3. Investment income			
a. Investment income	(33,930)	(2,059)	(35,989)
b. Investment expenses	(201)	(11)	(212)
c. Net subtotal	<u>(34,131)</u>	<u>(2,070)</u>	<u>(36,201)</u>
4. Other	35	0	35
5. Total income (2.d. + 3.c. + 4.)	\$ (10,563)	\$ (2,070)	\$ (12,633)
6. Benefits Paid			
a. Annuity benefits	(1,626)	(1,210)	(2,836)
b. Refunds	(810)	0	(810)
c. Total benefits paid	<u>(2,436)</u>	<u>(1,210)</u>	<u>(3,646)</u>
7. Expenses			
a. Other	(17)	0	(17)
b. Administrative	(219)	0	(219)
c. Total Expenses	<u>(236)</u>	<u>0</u>	<u>(236)</u>
8. Total distributions (6.c. + 7.c.)	(2,672)	(1,210)	(3,882)
9. Other changes in reserves			
a. Annuities awarded	(2,225)	2,225	0
b. Transfer between reserves	7,344	(7,344)	0
c. Mortality gain/(loss) not transferred	(399)	399	0
d. Change in assumptions	0	0	0
e. Total other changes	<u>4,720</u>	<u>(4,720)</u>	<u>0</u>
10. Fund balance at market value at June 30, 2009 <i>(1. + 5. + 8. + 9.e.)</i>	\$ 167,300	\$ 0	\$ 167,300

Plan Assets

Actuarial Asset Value *(Dollars in Thousands)*

	June 30, 2009		
1. Market value of assets available for benefits			\$ 167,300
2. Determination of average balance			
a. Total assets available at July 1, 2008			183,815
b. Total assets available at June 30, 2009			167,300
c. Net investment income for fiscal year ending June 30, 2009			(36,166)
d. Average balance <i>[a. + b. - c.] / 2</i>			193,641
3. Expected return <i>[8.5% x 2.d.]</i>			16,460
4. Actual return			(36,166)
5. Current year unrecognized asset return <i>(4. - 3.)</i>			(52,626)
6. Unrecognized asset returns*			
	Original	% Not	
	Amount	Recognized	
a. Year ended June 30, 2009	\$ (52,626)	80%	\$ (42,101)
b. Year ended June 30, 2008	(23,619)	60%	(14,171)
c. Year ended June 30, 2007	13,050	40%	5,220
d. Year ended June 30, 2006	3,875	20%	775
e. Total unrecognized return			\$ (50,277)
7. Actuarial value at June 30, 2009 <i>(1. - 6.e.)</i>			\$ 217,577

** Prior to the year ending June 30, 2009, unrecognized asset returns do not include Post Fund gains or losses.*

Membership Data

Distribution of Active Participants

Age	Years of Service June 30, 2009										Total
	<3	3 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 38	40+	
<25	252	25	3								280
Avg. Earnings	21,653	32,118	36,986								22,752
25 - 29	373	197	84								654
Avg. Earnings	27,160	40,912	44,861								33,576
30 - 34	159	104	221	30							514
Avg. Earnings	29,127	40,550	46,376	52,719							40,231
35 - 39	126	77	226	101							530
Avg. Earnings	26,847	38,918	48,858	55,042							43,360
40 - 44	113	61	198	146							518
Avg. Earnings	26,999	40,707	48,373	59,233							45,868
45 - 49	75	46	169	166							456
Avg. Earnings	25,497	37,674	49,049	58,840							47,592
50 - 54	48	34	135	157							374
Avg. Earnings	31,015	43,998	47,696	59,538							50,190
55 - 59	28	14	85	129							256
Avg. Earnings	26,769	39,504	46,193	55,475							48,380
60 - 64	15	2	39	57							113
Avg. Earnings	29,766	52,442	43,903	54,846							47,697
65 - 69	4	1	6	4							15
Avg. Earnings	16,715	2,665	34,560	49,699							31,712
70+	4			1							5
Avg. Earnings	30,470			58,832							36,143
Total	1,197	561	1,166	791	0	0	0	0	0	0	3,715
Avg. Earnings	26,264	40,017	47,446	57,451	N/A	N/A	N/A	N/A	N/A	N/A	41,629

In each cell, the top number is the count of active participants for the age/service combination and the bottom number is average annual earnings.

Membership Data

Distribution of Service Retirements

Age	Years Retired as of June 30, 2009							Total
	<1	1 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25+	
<45								0
Avg. Benefit								N/A
45 – 49								0
Avg. Benefit								N/A
50 – 54	2	5						7
Avg. Benefit	5,830	6,009						5,958
55 – 59	19	36	3					58
Avg. Benefit	7,391	5,412	3,428					5,958
60 – 64	17	48	24					89
Avg. Benefit	7,019	5,213	2,544					4,838
65 – 69	7	40	36					83
Avg. Benefit	11,825	6,209	2,246					4,964
70 – 74	2	8	17					27
Avg. Benefit	5,526	4,651	1,401					2,670
75 – 79			3					3
Avg. Benefit			1,138					1,138
80 – 84								0
Avg. Benefit								N/A
85 – 89								0
Avg. Benefit								N/A
90+								0
Avg. Benefit								N/A
Total	47	137	83	0	0	0	0	267
Avg. Benefit	7,771	5,552	2,162	N/A	N/A	N/A	N/A	4,889

In each cell, the top number is the count of retired participants for the age/years retired combination and the bottom number is the average annual benefit amount.

Membership Data

Distribution of Survivors*

Age	Years Since Death as of June 30, 2009							Total
	<1	1 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25+	
<45		3	2					5
Avg. Benefit		4,809	673					3,154
45 – 49		1						1
Avg. Benefit		2,112						2,112
50 – 54	1		2					3
Avg. Benefit	6,284		2,115					3,505
55 – 59		3	2					5
Avg. Benefit		6,136	2,187					4,556
60 – 64			2					2
Avg. Benefit			13,518					13,518
65 – 69		2	1					3
Avg. Benefit		3,512	1,150					2,725
70 – 74								0
Avg. Benefit								N/A
75 – 79	1							1
Avg. Benefit	7,648							7,648
80 – 84								0
Avg. Benefit								N/A
85 – 89								0
Avg. Benefit								N/A
90+								0
Avg. Benefit								N/A
Total	2	9	9	0	0	0	0	20
Avg. Benefit	6,966	4,663	4,237	N/A	N/A	N/A	N/A	4,702

In each cell, the top number is the count of survivors for the age/years since death combination and the bottom number is the average annual benefit amount.

* Difference from number of survivors shown on page 14 is due to the inclusion of multiple survivors of members.

Membership Data

Distribution of Disability Retirements

Age	Years Disabled as of June 30, 2009							Total
	<1	1 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25+	
<45	2	9	1					12
Avg. Benefit	18,601	16,418	23,220					17,349
45 – 49	1	8	4					13
Avg. Benefit	9,948	14,701	25,189					17,563
50 – 54	1	13	8					22
Avg. Benefit	24,502	16,702	17,225					17,247
55 – 59	2	14	10					26
Avg. Benefit	13,950	15,384	12,580					14,195
60 – 64		13	14					27
Avg. Benefit		14,776	17,027					15,943
65 – 69		1						1
Avg. Benefit		8,200						8,200
70 – 74								0
Avg. Benefit								N/A
75 – 79								0
Avg. Benefit								N/A
80 – 84								0
Avg. Benefit								N/A
85 – 89								0
Avg. Benefit								N/A
90+								0
Avg. Benefit								N/A
Total	6	58	37	0	0	0	0	101
Avg. Benefit	16,592	15,486	16,918	N/A	N/A	N/A	N/A	16,076

In each cell, the top number is the count of disabled participants for the age/years since disability combination and the bottom number is the average annual benefit amount.

Membership Data

Reconciliation of Members*

	Actives	Terminated		Recipients			Total
		Deferred Retirement	Other Non-vested	Service Retirements	Disability Retirements	Survivors	
Members on 6/30/2008	3,710	1,520	1,473	211	92	15	7,021
New entrants	366	0	0	0	0	0	366
Return to active	35	(16)	(19)	0	0	0	0
Terminated non-vested	(163)	0	208	0	0	0	45
Service retirements	(45)	(11)	0	57	(1)	0	0
Terminated deferred	(116)	116	0	0	0	0	0
Terminated refund	(56)	(27)	(27)	0	0	0	(110)
Deaths	(3)	(3)	(1)	(3)	(5)	0	(15)
New beneficiary	0	0	0	0	0	3	3
Disabled	(13)	(3)	0	0	15	0	(1)
Data correction	0	107	(109)	2	0	0	0
Net change	5	163	52	56	9	3	288
Members on 6/30/2009	3,715	1,683	1,525	267	101	18	7,309

* Provided by PERA and checked for reasonableness.

Terminated deferred retirement statistics

- Average age 38.3 years
- Average service 2.6 years
- Average annual benefit, including augmentation \$4,048