H.F. 2453
(Thissen)

S.F. 2258
(Larson)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): Minneapolis Firefighters Relief Association
Relevant Provisions of Law: Minnesota Statutes, Section 423C.06, Subdivision 2
General Nature of Proposal: Doubling of future "thirteenth check" post-retirement adjustments
Date of Summary: April 30, 2007

Specific Proposed Changes

- Increases the amount of Minneapolis Firefighters Relief Association assets dedicated for distribution as "thirteenth check" post-retirement adjustments from one-half of one percent of total assets to one percent of total assets.

Policy Issues Raised by the Proposed Legislation

1. Unclear need for increased post-retirement adjustment.
2. Appropriate amount of thirteenth check adjustments.
3. Appropriateness in light of the extent of current post-retirement adjustment.
4. Inappropriateness of thirteenth check "last participant's club" aspect.
5. Actuarial condition of the Minneapolis Firefighters Relief Association and affordability.
6. Lack of local approval clause effective date.
7. Question of the extent of municipal support.

Potential Amendments

H2453-1A (substantive) adds local approval clause effective date provision.

State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director LAM

RE: H.F. 2453 (Thissen); S.F. 2258 (Larson): Minneapolis Firefighters Relief Association; Doubling Amount of Future Thirteenth Checks

DATE: April 30, 2007

Summary of H.F. 2453 (Thissen); S.F. 2258 (Larson)

H.F. 2453 (Thissen); S.F. 2258 (Larson) amends Minnesota Statutes, 423C.06, Subdivision 2, a portion of the Minneapolis Firefighters Relief Association thirteenth check post-retirement adjustment mechanism, by increasing the amount available for distribution as an annual "thirteenth check" post-retirement adjustment from one-half of one percent of relief association special fund assets to one percent of relief association special fund assets.

Background Information

Background information on relevant topics is set forth in the following attachments:

Attachment A: Background information on the Minneapolis Firefighters Relief Association.

Attachment B: Background information on the Minneapolis Firefighters Relief Association post-retirement adjustment mechanisms.

Attachment C: Background information on Minneapolis Firefighters Relief Association funding problems.

Discussion and Analysis

H.F. 2453 (Thissen); S.F. 2258 (Larson) modifies the Minneapolis Firefighters Relief Association "thirteenth check" post-retirement adjustment established in 1989 and doubles the amount of relief association assets available for distribution as lump sum payments each year.

The proposed legislation raises several pension and related public policy issues that may merit Commission consideration and discussion, as follows:

1. Unclear Need for Increased Post-Retirement Adjustment. The policy issue is the appropriateness of modifying one of the Minneapolis Firefighters Relief Association post-retirement adjustment mechanism and increasing the amount of subsequent potential annual limp sum post-retirement adjustment payments when the rationale for that proposed benefit increase is unclear. The primary rationale for post-retirement adjustments set forth in the Commission's Principles of Pension Policy is to replace all or a portion of the purchasing power of a retirement benefit that is lost to inflation. Currently, the cost of living increases as measured by the Consumer Price Index, calculated by the federal Bureau of Labor Statistics, is modest. The following sets forth the Consumer Price Index results for the period January 1968 to March 2007 and the percentage increase represented by each annual result:

Consumer Price Index – All Urban Consumers

Year	Jan	Jun	Jul	Dec	Annual	% Increase
1968	34.1	34.7	34.9	35.5	34.8	4.2
1969	35.6	36.6	36.8	37.7	36.7	5.5
1970	37.8	38.8	39.0	39.8	38.8	5.7
1971	39.8	40.6	40.7	41.1	40.5	4.4
1972	41.1	41.7	41.9	42.5	41.8	3.2
1973	42.6	44.2	44.3	46.2	44.4	6.2
1974	46.6	49.0	49.4	51.9	49.3	11.0
1975	52.1	53.6	54.2	55.5	53.8	9.1
1976	55.6	56.8	57.1	58.2	56.9	5.8
1977	58.5	60.7	61.0	62.1	60.6	6.5
1978	62.5	65.2	65.7	67.7	65.2	7.6
1979	68.3	72.3	73.1	76.7	72.6	11.3
1980	77.8	82.7	82.7	86.3	82.4	13.5
1981	87.0	90.6	91.6	94.0	90.9	10.3
1982	94.3	97.0	97.5	97.6	96.5	6.2
1983	97.8	99.5	99.9	101.3	99.6	3.2

Consumer Price Index – All Urban Consumers

Year	Jan	Jun	Jul	Dec	Annual	% Increase
1984	101.9	103.7	104.1	105.3	103.9	4.3
1985	105.5	107.6	107.8	109.3	107.6	3.6
1986	109.6	109.5	109.5	110.5	109.6	1.9
1987	111.2	113.5	113.8	115.4	113.6	3.6
1988	115.7	118.0	118.5	120.5	118.3	4.1
1989	121.1	124.1	124.4	126.1	124.0	4.8
1990	127.4	129.9	130.4	133.8	130.7	5.4
1991	134.6	136.0	136.2	137.9	136.2	4.2
1992	138.1	140.2	140.5	141.9	140.3	3.0
1993	142.6	144.4	144.4	145.8	144.5	3.0
1994	146.2	148.0	148.4	149.7	148.2	2.6
1995	150.3	152.5	152.5	153.5	152.4	2.8
1996	154.4	156.7	157.0	158.6	156.9	3.0
1997	159.1	160.3	160.5	161.3	160.5	2.3
1998	161.6	163.0	163.2	163.9	163.0	1.6
1999	164.3	166.2	166.7	168.3	166.6	2.2
2000	168.8	172.4	172.8	174.0	172.2	3.4
2001	175.1	178.0	177.5	176.7	177.1	2.8
2002	177.1	179.9	180.1	180.9	179.9	1.6
2003	181.7	183.7	183.9	184.3	184.0	2.3
2004	185.2	189.7	189.4	190.3	188.9	2.7
2005	190.7	194.5	195.4	196.8	195.3	3.4
2006	198.3	202.9	203.5	201.8	201.6	3.2
2007	202.416	--	--	--	--	1.9

Series Id: CUUR0000SA0
Not Seasonally Adjusted
Area: U.S. city average
Item: All items
Base Period: 1982-84=100

Since inflationary pressures remain modest, if inflation is the reason for the requested benefit increase, Minneapolis Firefighters Relief Association officials should be requested to provide additional testimony about its view of recent inflation, the extent that the current escalator post-retirement adjustment has addressed those recent inflationary increases, and its retirees' needs for additional retirement income. If the requested post-retirement increase is based on factors other than inflationary pressures, Minneapolis Firefighters Relief Association officials should be requested to testify on why those factors are valid public policy reasons for the enactment of the benefit increase.

2. Appropriate Amount of Thirteenth Check Adjustments. The policy issue is the appropriateness of the doubling of the future thirteenth check adjustments in light of the amount of the current thirteenth check adjustment and the proposed thirteenth check adjustment. Under the December 2005 actuarial valuation of the Minneapolis Firefighters Relief Association, there are 385 retirees, 50 disabilitants, and 166 surviving spouses. With a potential distribution under the current "thirteenth check" provision of one-half of one percent of Minneapolis Firefighters Relief Association assets, a total of $1,212,981 would be available for payments and a retiree or disabilitant could expect to receive a lump sum payment of $1,217.26. Under the proposed legislation, the total distribution and potential individual payment amounts would double, for a total outlay of $2,425,963 and expected payments of $4,647.86 for retirees and disabilitants and $2,434.52 for survivors.

3. Appropriateness in Light of the Extent of Current Post-Retirement Adjustment. The policy issue is the appropriateness of the proposed legislation in light of the extent of the current post-retirement adjustment mechanisms available to Minneapolis Firefighters Relief Association members. As the background information attachment indicates, Minneapolis Firefighters Relief Association members have three post-retirement adjustment mechanisms, although only two are currently operational. The post-retirement escalator, which provides permanent percentage increases equal to the salary increase applicable to first class Minneapolis firefighters, would be as adequate in countering the cost-of-living as active member salary increases are. The 1989 "thirteenth check" post-retirement adjustment is an addition to the escalation adjustment, presumably offsetting the financial impact of any delay between actual inflation and the recognition of inflation in wage settlements and post-retirement adjustments. Beyond that, Minneapolis Firefighters Relief Association has an adjustment that operates whenever the plan is funded in excess of 110 percent, an adjustment mechanism that has not yet operated and will be less likely to operate if the "thirteenth check" adjustment payout amount is doubled.

4. Inappropriateness of "Thirteenth Check" Last Participant's Club Aspect. The policy issue is the appropriateness of further modifying a post-retirement adjustment mechanism that already functions as a

last participant's club and that may reflect jealousies among a declining group of "last" participants. That same concern may have been the motivation in whole or in part of the 110 percent funded post-retirement adjustment. With the closure of the Minneapolis Firefighters Relief Association to new active members in 1980, the retirement plan became a totally closed group and setting the size of post-retirement adjustments based on the size of retirement plan assets inevitably made the plan's operation a "last participant's club," where larger potential adjustments become possible with the twin developments of greater mandated funding and a smaller covered population. Older retirees may discern that they will not be part of the ultimate beneficiaries of these twin developments, leading to support for requests to increase the size of the distributions prematurely, as this bill does, and to speed the timing of funding, as the recent demand for a change in mortality tables did.

5. Actuarial Condition of the Minneapolis Firefighters Relief Association and Affordability. The policy issue is the recent decline in the funding of the Minneapolis Firefighters Relief Association and the affordability of a sweetening of a post-retirement adjustment mechanism with those funding developments. The changing funded condition of the Minneapolis Firefighters Relief Association over the past seven actuarial valuations is as follows:

	1999		2000		2001		2002		2003		2004		2005	
Membership														
Active Members		153		104		84		76		58		42		37
Service Retirees		411		445		441		436		439		438		385
Disabilitants		9		8		6		8		8		6		50
Survivors		202		200		198		190		183		177		166
Deferred Retirees		1		1		2		2		2		0		0
Nonvest Frmr Mem		--		--		--		--		--		--		--
Total Membership		776		758		731		712		690		663		638
Funded Status														
Accrued Liability		$291,167,696		$293,801,923		$293,396,109		$292,677,962		$293,955,306		$275,513,196		$312,563,011
Current Assets		$318,042,643		$315,900,478		$304,886,680		$255,194,400		$236,990,860		$248,545,796		$269,425,963
Unf. Accr. Liability		($26,874,947)		($22,098,555)		($11,490,571)		$37,483,562		$56,964,446		$26,967,400		$43,137,048
Funding Ratio	109.23%		107.52%		103.92%		87.19%		80.62%		90.21%		86.20%	
Financing Req.														
Covered Payroll		$9,651,442		$7,054,115		$5,887,582		$5,539,933		$4,396,958		$3,141,585		$2,821,419
Benefits Payable		$21,229,325		$19,919,708		$19,610,997		$24,064,274				$20,598,079		$23,543,793
Normal Cost	28.02%	$2,704,631	21.83%	$1,540,141	22.11%	$1,251,925	21.74%	$1,157,861	21.44%	$906,523	21.07%	$636,326	23.22%	$655,070
Admin Expenses	0.00%	--	0.00%	--	0.00%	--	0.00%	--	0.00%	--	0.00%	--	0.00%	--
Normal Cost & Exp	28.02%	$2,704,631	21.83%	$1,540,141	22.11%	$1,251,925	21.74%	$1,157,861	21.44%	$906,523	21.07%	$636,326	23.22%	$655,070
Normal Cost & Exp	28.02%	$2,704,631	21.83%	$1,540,141	22.11%	$1,251,925	21.74%	$1,157,861	21.44%	$906,523	21.07%	$636,326	23.22%	$655,070
Amortization	0.00%	$0	0.00%	$0	0.00%	$0	114.34%	$6,334,535	125.02%	$5,533,223	71.82%	$2,256,188	138.86%	$3,917,905
Total Req	28.02%	$2,704,631	21.83%	$1,540,141	22.11%	$1,251,925	136.08%	$7,492,396	146.46%	$6,439,746	92.89%	$2,892,514	162.08%	$4,572,975
Employee Contrib	8.00%	$772,115	8.00%	$564,329	8.00%	$471,006	8.00%	$443,195	3.10%	$136,209	1.27%	$39,852	0.43%	$12,010
Employer Contrib	20.02%	$1,932,516	14.71%	$975,812	14.11%	$780,918	13.74%	$731,713	30.32%	$1,333,171	68.42%	$2,149,604	235.75%	$6,651,656
Empl'er Add'l Cont.	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Direct State Fund.	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Other Govt. Fndg	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Admin Assessment	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Total Contrib	28.02%	$2,704,631	22.71%	$1,540,141	22.11%	$1,251,925	21.74%	$1,157,861	33.42%	$1,469,380	69.69%	$2,189,456	236.18%	$6,663,666
Total Requirements	28.02%	$2,704,631	21.83%	$1,540,141	22.11%	$1,251,925	136.08%	$7,492,396	146.46%	$6,439,746	92.89%	2,189,456	162.08%	6,663,666
Total Contributions	28.02%	$2,704,631	22.71%	$1,540,141	22.11%	$1,251,925	21.74%	$1,157,861	33.42%	$1,469,380	69.69%	2,892,514	236.18%	4,572,975
Deficiency(Surplus)	0.00%	$0	(0.88%)	$0	0.00%	$0	114.34%	$6,334,535	113.04%	$4,970,366	23.20%	($703,058)	(74.09%)	$2,090,691
Amort. Target Date	2010		2010		2016		2010		2017		2020		2021	
Actuary	Van Iwaarden		Van Iwaarden		Van Iwaarden		Van Iwaarden		Van Iwaarden		Van Iwaarden		Van Iwaarden	

6. Lack of Local Approval Clause Effective Date. The policy issue is the lack of a local approval clause effective date provision for proposed legislation that affects a retirement plan that is located in one city and for which the financial responsibility is borne by that city. Under the Minnesota Constitution, Article XII, Section 2, local legislation must be approved by the affected locality. Although some past enactments relating to the Minneapolis Firefighters Relief Association have lacked a local approval effective date, a past failure of legislation to conform with a Constitutional requirement does not change its nature as local legislation.

   If the Commission wishes to add a local approval effective date, **Amendment H2453-1A** would require approval by the City of Minneapolis.

7. Question of the Extent of Municipal Support. The policy issue is the extent of support for the proposed legislation by the City of Minneapolis. Historically, the Commission has required some expression of support from the governing body of the affected municipality before it considered proposed local legislation in order to avoid wasting legislative time in processing legislation that ran a significant risk of not being approved. It is unclear whether the City of Minneapolis has favorably considered this proposal. Proponents of the proposed legislation or representatives of the City of Minneapolis should be requested to indicate what stages have been taken to gain municipal support.

Attachment A

Background Information on the Minneapolis Firefighters Relief Association

a. Relief Association Establishment and Operation. The Minneapolis Firefighters Relief Association was established as an organization in 1868, initially to provide relief to disabled firefighters and to their families, when the Minneapolis Firefighters was a volunteer fire department, and was incorporated under Minnesota law in 1886, after the Minneapolis Fire Department became a paid fire department, in 1879. The Minneapolis Firefighters Relief Association began paying service pensions to retiring firefighters in 1897. Membership in the Minneapolis Firefighters Relief Association was closed to new firefighters as of June 15, 1980, when pension coverage for newly hired Minneapolis firefighters shifted to the statewide Public Employees Police and Fire Plan (PERA-P&F). Prior to 2001, the relief association was named the Minneapolis Fire Department Relief Association and changed its name when its governing law was codified as Minnesota Statutes, Chapter 423C.

The Minneapolis Firefighters Relief Association is managed by a governing board of 12 members, of which two are active firefighters, eight are retired firefighters or surviving spouses, and two are appointed representatives of the City of Minneapolis. In addition to maintaining records and determining benefit amounts, the Minneapolis Firefighters Relief Association governing board is the investment authority for the assets of the special (pension) and general (non-pension) funds of the relief association.

In calendar year 2005, the Minneapolis Firefighters Relief Association received total contributions of almost $6.7 million (28.72 percent from the State of Minnesota, 71.10 percent from the City of Minneapolis, and 0.18 percent from the members), received net investment income of $15.5 million, paid total retirement benefits of almost $21.1 million, and paid administrative expenses of $668,000 (28 percent for personnel, 48 percent for professional services, and 23 percent for conferences, communications, office rent, and other items).

b. Nature of the Benefit Plan; Benefit Coverage. The Minneapolis Firefighters Relief Association provides from its special fund a salary-related service pension to firefighters retiring at age 50 or older with at least five years of service, a disability benefit to temporarily or permanently disabled firefighters, a survivor benefit to the surviving family of a deceased active, retired, or disabled firefighter, and a return of contributions to the estate of deceased active, retired, or disabled firefighters on whose behalf no survivor benefit is payable. Pensions and benefits are based on the salary of a first grade firefighter, irrespective of the actual rank of the firefighter. Under Laws 1997, Chapter 233, Article 4, a joint-and-survivor optional annuity form can be elected in lieu of the automatic survivorship coverage otherwise provided by the fund.

Since 1990, the contributions by any member (eight percent of the pay of a first-grade firefighter) who has 25 or more years of service are not deposited in the special fund, but rather, the contribution is deposited in a health insurance account set up for the member. After retirement, in addition to the pension benefit paid from the association's special fund, the retiree also receives distributions from the health insurance account, which the retiree can use toward health care costs or other expenses of the retiree.

When a Minneapolis firefighter retires and begins drawing a service pension from the association's special fund, those benefits are eligible for increases annually through three different post-retirement increase mechanisms, which are:

1. Active Salary-Related Escalator. The first post-retirement adjustment is a standard escalator tied to increases in the salary of a first-grade firefighter. This escalator increases retirement benefits by the same percentage increase as the percentage increase in first-grade firefighter pay negotiated between the City and the Minneapolis Firefighters Union.
2. Thirteenth Check Adjustment. A second increase provision is based on the investment performance of the special fund of the relief association, and is referred to as the 13th check post-retirement adjustment. The 13th check post-retirement adjustment was enacted in 1989.
3. Additional Post-Retirement Adjustment. A third post-retirement increase mechanism was added to law in 2000. If the funding ratio (percentage of plan pension liabilities covered by plan assets) of the relief association exceeds 110 percent, the association is authorized to distribute a portion of the funding in excess of 110 percent of its liabilities to its benefit recipients.

Additionally, from its general fund, the Minneapolis Firefighters Relief Association provides a $1,200 lump sum death benefit to the survivors or the estate of deceased active or former firefighters and a $102 per year of service lump sum retirement benefit to a retiring firefighter.

c. Actuarial and Financial Reporting. The Minneapolis Firefighters Relief Association is required to prepare actuarial reporting under Minnesota Statutes, Sections 69.77, 356.215, 356.216, and 423C.15. The relief association is required to make financial reports under Minnesota Statutes, Sections 69.051 and 356.20.

Minnesota Statutes, Section 69.77, initially enacted in 1969 (Laws 1969, Chapter 223), and amended periodically thereafter, requires municipalities to fund their local relief associations on an actuarial basis. The basic provisions of the 1969 Local Police and Salaried Firefighters Relief Associations Financial Guidelines Act, adjusted for the Minneapolis Firefighters Relief Association, are as follows:

- Each member of a local association is required to contribute at least eight percent of the salary used for calculating retirement benefits, with the contribution to be made by salary deduction.
- The financial requirements of the associations must be calculated annually based on the most recent actuarial valuation. The financial requirements are to include normal cost and amortization of the unfunded accrued liability by the year 2010 or 15 years from the recognition date of a net new unfunded actuarial accrued liability, whichever is later, but not to exceed the average remaining life expectancy of its remaining members. The minimum obligation of the municipality to be raised by taxes each year is the financial requirements of the association, less member contribution amounts received under the fire state aid program, amounts received under the fire insurance premium surcharge, and amounts received under the relief association amortization aid programs for that year. If the Minneapolis Firefighters Relief Association assets exceed 110 percent of the relief association actuarial accrued liability, the city is not obligated to make a normal cost contribution.
- The levy required to meet the municipality's minimum obligation is outside statutory or charter levy limitations.
- If a municipality fails to include an amount sufficient to meet the minimum obligation to the association, the relief association has the authority to certify the amount required to the county auditor for inclusion in the municipality's tax levy.
- Investments of local associations must be in securities which are authorized investments under Minnesota Statutes, Chapter 356A.
- Local associations are authorized to contract with outside investment advisors and are authorized to certify funds for investment by the State Board of Investment in the Minnesota Supplemental Investment Fund.
- Actuarial valuations must be filed by the association with the State Auditor, the Legislative Commission on Pensions and Retirement, the Legislative Reference Library, and the municipality.
- All articles of incorporation or bylaw amendments affecting benefits for a local relief association must be ratified by the municipality prior to becoming effective.
- The penalty for a violation of the act is to make the transfer of funds received under the various state aid programs or the levying of taxes by the municipality unlawful.

Minnesota Statutes, Sections 356.215 and 356.215, require the preparation of actuarial valuations under the entry age normal cost actuarial method, using specified interest and salary rate actuarial assumptions, and calculating the actuarial requirements based on a specified amortization target date. Minnesota Statutes, Section 423C.15, provides for an adjustment to the city normal cost contribution, suspends city normal cost contributions in certain instances, provides 15-year amortization periods for actuarial losses after 2001, and limits the amortization target date revisions to the end of the average life expectancy of the relief association membership.

Minnesota Statutes, Section 69.051, a portion of the fire and police state aid programs, requires the preparation of a financial report and audit for qualification for fire and police state aid, with the report filed with the State Auditor and with the Legislative Commission on Pensions and Retirement. Minnesota Statutes, Section 356.20, requires annual financial reporting by various Minnesota public pension plans, but grandparents financial reporting under Minnesota Statutes, Section 69.051, by local fire and police relief associations.

Attachment B

Background Information on Minneapolis Firefighters Relief Association Post-Retirement Adjustment Mechanisms

1. In General. The Minneapolis Firefighters Relief Association (MFRA) has three post-retirement adjustment mechanisms, with one based on the periodic salary increases applicable to a first grade firefighter, one based on investment performance, and one based on the funded ratio of the retirement plan.

2. MFRA Escalator Adjustment. Until 1955, the Minneapolis Firefighters Relief Association (MFRA) provided a specific dollar amount service pension and that service pension was not subject to any automatic post-retirement adjustment. In 1955 (Laws 1955, Chapter 188, Section 7), the MFRA converted to a service pension based on the monthly salary of a first grade firefighter each January 1, based on "units." The unit value was initially set at and remains defined as one-80th of the base salary, which is the monthly salary of a first grade firefighter. The escalator authority was permissive, requiring the relief association to implement the escalator through a relief association bylaw amendment.

3. Investment Performance-Based Thirteenth Check. In 1989 (Laws 1989, Chapter 319, Article 19, Section 7), an investment-related post-retirement adjustment was added to the Minneapolis Firefighters Relief Association (MFRA) benefit plan in addition to the post-retirement escalator. The adjustment was a single automatic lump sum payment that in total equaled one-half of one percent of the assets of the relief association. The adjustment was payable if the total time-weighted rate of return investment performance for the fiscal year exceeds by two percent the actual fiscal year annual increase in the salary of a top grade firefighter and if the annual average time-weighted rate of return investment performance for the previous five years exceeds by two percent the annual actual average increase in the salary of a top grade firefighter. Each adjustment recipient's share is determined based on the relationship between the number of units of the person's base benefit and the total number of units for all recipients. If the "thirteenth check" is payable, an amount equal to an additional one-half of the assets of the relief association is applied to reduce that year's state amortization aid or state supplemental amortization aid.

   In 1996 (Laws 1996, Chapter 438, Article 4, Sections 12 and 13), the MFRA investment-related post-retirement adjustment mechanism was modified by reducing the investment performance triggers for the mechanism to one to solely match the five-year average annual salary increase rate plus two percent.

   In 1997 (Laws 1997, Chapter 233, Article 4, Sections 13 to 16), the amount of relief association assets available for distributions through the "thirteenth check" was increased to 1.5 percent of the assets if the relief association has a funding ratio in the most recent actuarial valuation of at least 103 percent, and retaining the one-half of one percent maximum on the amount of assets available for distribution if the funding ratio of the relief association in the most recent actuarial valuation is under 102 percent.

4. Additional Funded Ratio Related Post-Retirement Adjustment. In 2000 (Laws 2000, Chapter 461, Article 17, Sections 7 to 12), an "excess asset amount component" post-retirement adjustment was added to the Minneapolis Firefighters Relief Association (MFRA) benefit plan. The additional adjustment is payable to all pensioners and benefit recipients if the funding ratio of the relief association exceeded 110 percent, with the amount in excess of a 110 percent funding requirement, reduced by an active member adjustment (assets in excess of 110 percent fund x (1 – (total number of active member units ÷ sum of active member units and retirement member units))), with 20 percent of the excess asset amount allocated to pensioners and benefit recipients in proportion to the relationship that their respective units amount bears to the total number of units of all pensioners and benefit recipients, but prorated if the person has not received a pension or benefit for at least 12 months. The adjustment is payable each May 1.

5. Post Retirement Adjustments under the Minneapolis Firefighters Relief Association Post Retirement Adjustments. The following compares the seven post-retirement adjustment mechanisms by the average effective compounded percentage increase that each mechanism provided for the 28-year period, highest to lowest:

Post-Retirement Adjustment Mechanism	Compounded Annual Percentage Increase
Fairmont Police Relief Association	7.6%
Minnesota Post Retirement Investment Fund	5.7%

Post-Retirement Adjustment Mechanism	Compounded Annual Percentage Increase
Minneapolis Firefighters Relief Association	5.4%
Minneapolis Police Relief Association	5.375%
Minneapolis Employees Retirement Fund	5.2%
Consumer Price Index	4.3%
Duluth Teachers Retirement Fund Association	2.9%
St. Paul Teachers Retirement Fund Association	2.26%

The following compares the cumulative effect of the seven post-retirement adjustment mechanisms for a hypothetical individual who retired in 1977 with a monthly benefit of $1,000:

Effective Date	CPI	MPRIF	MERF	DTRFA	SPTRFA	MFRA	MPRA	Fairmont
1977	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
1978	1,067.00	1,040.00	1,040.00	1,000.00	1,000.00	1,123.00	1,122.75	1,133.00
1979	1,163.03	1,040.00	1,040.00	1,000.00	1,006.44	1,207.23	1,197.97	1,327.88
1980	1,317.71	1,040.00	1,040.00	1,000.00	1,013.17	1,300.18	1,299.80	1,596.11
1981	1,482.43	1,073.37	1,073.37	1,000.00	1,020.37	1,405.50	1,406.39	1,754.12
1982	1,614.36	1,153.19	1,153.19	1,000.00	1,028.70	1,491.23	1,478.11	1,843.58
1983	1,675.71	1,232.22	1,258.94	1,000.00	1,035.78	1,555.35	1,566.80	1,893.36
1984	1,739.39	1,324.62	1,277.39	1,000.00	1,044.66	1,628.46	1,627.90	2,105.41
1985	1,807.22	1,416.09	1,414.50	1,028.90	1,052.47	1,708.25	1,693.02	2,176.99
1986	1,875.90	1,527.96	1,537.79	1,063.81	1,062.12	1,768.04	1,752.28	2,224.89
1987	1,896.53	1,677.58	1,654.49	1,096.55	1,072.64	1,852.90	1,838.14	2,293.86
1988	1,979.98	1,812.69	1,809.54	1,129.19	1,088.53	1,927.02	1,911.66	3,133.42
1989	2,067.10	1,938.09	1,916.95	1,129.19	1,104.73	2,002.17	1,993.14	3,243.09
1990	2,162.18	2,016.39	2,049.57	1,163.68	1,122.53	2,064.31	2,065.69	3,340.38
1991	2,294.08	2,119.22	2,153.67	1,197.82	1,141.29	2,136.56	2,156.58	3,433.91
1992	2,365.19	2,210.24	2,153.67	1,231.43	1,163.04	2,224.29	2,237.62	3,519.76
1993	2,433.78	2,310.88	2,282.54	1,259.41	1,183.10	2,387.29	2,408.16	3,829.50
1994	2,499.50	2,449.92	2,369.83	1,288.78	1,204.01	2,501.87	2,459.44	3,923.89
1995	2,566.98	2,547.55	2,444.33	1,312.54	1,223.75	2,564.42	2,557.82	4,129.54
1996	2,631.16	2,710.48	2,532.21	1,373.47	1,243.98	2,872.36	2,790.56	4,294.72
1997	2,717.99	2,928.39	2,632.23	1,450.82	1,261.63	3,151.00	2,968.37	4,646.89
1998	2,764.19	3,223.79	2,807.75	1,542.81	1,349.94	3,299.52	3,103.95	5,041.56
1999	2,808.42	3,540.54	3,044.50	1,651.00	1,447.34	3,488.27	3,307.52	5,328.89
2000	2,884.24	3,935.08	3,355.87	1,800.05	1,581.39	3,690.49	3,555.77	5,825.55
2001	2,982.31	4,310.26	3,708.57	1,984.36	1,702.72	3,884.96	3,775.74	6,222.98
2002	3,030.03	4,503.94	3,906.72	2,088.53	1,765.72	4,105.84	3,926.74	6,429.72
2003	3,102.75	4,537.50	3,935.81	2,130.30	1,801.03	4,270.08	4,078.54	6,961.09
2004	3,161.70	4,632.92	4,018.60	2,172.91	1,837.05	4,209.02	4,177.88	7,536.36
2005	3,269.20	4,748.75	4,146.14	2,216.37	1,873.79	4,461.14	4,344.99	7,631.34

The Minneapolis Firefighters Relief Association post-retirement adjustments cumulative are attributable almost entirely to the active-salary-related benefit escalator, especially large increases in 1993, 1996, and 1997. Akin to the Fairmont Police Relief Association, the Minneapolis Firefighters Relief Association board of trustees also re-determined unilaterally the compensation components includable in the "salary" of a first class firefighter during the 1990s. That re-designation of compensation amounts was subject to litigation, resulting in a settlement between the City of Minneapolis and the Minneapolis Firefighters Relief Association. Alleged violations of the settlement agreement were the basis for renewed litigation between the city and the relief association initiated recently. The "thirteenth check" has been a minimal contributor to the cumulative post-retirement adjustment and the 110-percent-funded adjustment mechanism has not yet become operational because of the decline in Minneapolis Firefighters Relief Association asset values from the economic decline after 2000.

While the cumulative results provide a sense of the overall results for the entire period, reviewed year-to-year, the ability of each post-retirement adjustment mechanism varies, as follows:

Post-Retirement Adjustment Mechanism	Number of Years in Excess of CPI	Number of Years Below CPI	Number of Years Equal to CPI
Minnesota Post Retirement Investment Fund	19	9	0
Minneapolis Employees Retirement Fund	19	9	0
Duluth Teachers Retirement Fund Association	9	19	0
St. Paul Teachers Retirement Fund Association	6	22	0
Minneapolis Firefighters Relief Association	18	10	0
Minneapolis Police Relief Association	18	10	0
Fairmont Police Relief Association	16	11	1

The pattern of when post-retirement adjustments exceeded or understated the Consumer Price Index varies, as follows:

Post-Retirement Adjustment Mechanism	CPI Comparison	Years
Minnesota Post Retirement Investment Fund	Above:	1983-1989, 1992-2002, 2004
	Below:	1978-1982, 1990-1991, 2003, 2005
Minneapolis Employees Retirement Fund	Above:	1983-1990, 1993-2002, 2004
	Below:	1978-1982, 1991-1992, 2003, 2005
Duluth Teachers Retirement Fund Association	Above:	1987, 1996-2002, 2004
	Below:	1978-1986, 1988-1995, 2003, 2005
St. Paul Teachers Retirement Fund Association	Above:	1998-2002, 2004
	Below:	1978-1997, 2003, 2005
Minneapolis Firefighters Relief Association	Above:	1978, 1983-1985, 1987, 1991-1994, 1996-2003, 2005
	Below:	1979-1982, 1986, 1988-1990, 1995, 2004
Minneapolis Police Relief Association	Above:	1982-1985, 1987, 1992-1993, 1995-2005
	Below:	1978-1981, 1986, 1988-1991, 1994
Fairmont Police Relief Association	Above:	1978-1980, 1984-1985, 1987, 1989, 1994, 1996, 1998-2004
	Below:	1981-1983, 1986, 1988, 1990-1993, 1997, 2005
	Even:	1995

Attachment C

Background Information on the Minneapolis Firefighters Relief Association Funding Problems

Historically, the Minneapolis Firefighters Relief Association was one of the worst funded public retirement plans in the state, with a funding ratio (assets divided by accrued liabilities) of just over one-half of one percent in 1967, of just under five percent in 1972, and of just under 21 percent in 1982. The plan was funded on a current disbursements/pay-as-you-go basis (contributions essentially equal to annual benefit payments) for about a century, which led to its poor funding situation in the 1960s. The Local Police and Paid Firefighters Relief Association Guidelines Act of 1969 phased-in funding of the Minneapolis Firefighters Relief Association and the other 51 local paid public safety employee pension plans on an actuarial basis, which resulted in the improved funding ratios in the 1970s. In 1980, the Minneapolis Firefighters Relief Association was closed to new active members, an amortization requirement (by 2010) was added, and the amortization state aid program was created, with the Minneapolis Firefighters Relief Association receiving about one-third of the $6.5 million annual state aid amount.

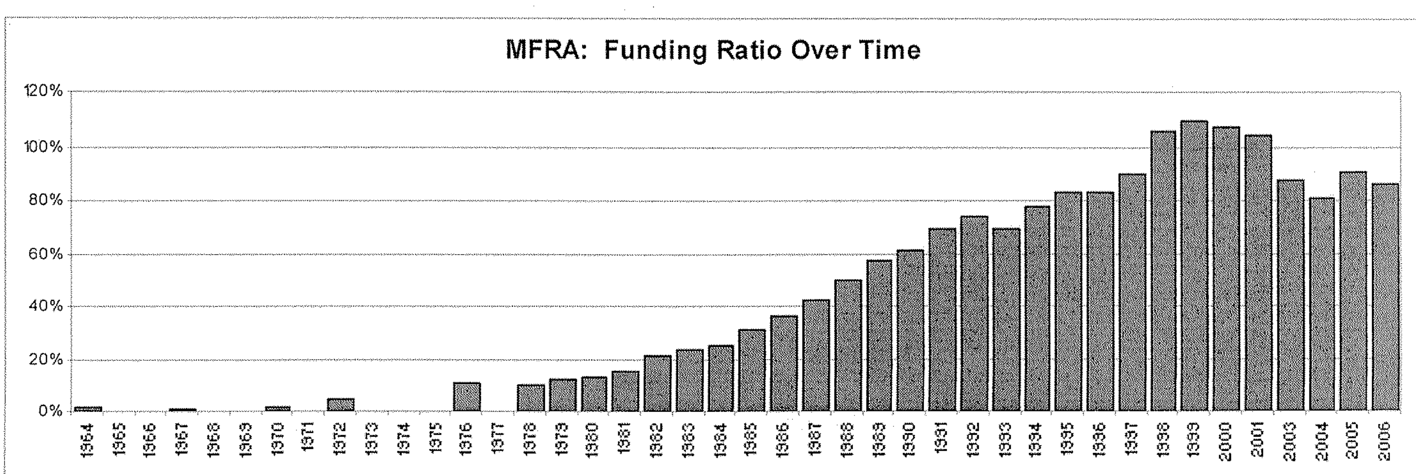
The addition of actuarial funding requirements in 1969 and 1980 and the addition of annual amortization state aid in 1980, supplemental amortization aid in 1984, and additional amortization aid in 1996, combined with the periodically strong investment markets since 1980, produced consistently improving funding ratios since 1982, culminating in the plan becoming fully funded in 1998. The improved funded condition of the Minneapolis Firefighters Relief Association caused the employer requirement to drop from $9.7 million per year in 1993 to $0.7 million per year in 2002, despite benefit increases during the period.

However, from a funded ratio high of 109 percent in 1999 and a $27 million funding surplus, the Minneapolis Firefighters Relief Association funded ratio now has dropped to 81 percent and the plan currently has a $57 million unfunded actuarial accrued liability. This fall in funded condition has caused the employer contribution requirement to climb to $6.1 million. The actuarial for the Minneapolis Firefighters Relief Association also is currently recommending a strengthening of the plan's retired lives mortality assumption, which, if implemented after approval by the Legislative Commission on Pensions and Retirement, will cause a further decline in the plan's funded ratio and will increase the employer obligation to the plan, despite the significant recent decline in the number of active members.

Since 1982, the Minneapolis Firefighters Relief Association has received $33.5 million in special direct pension-related aids, or 28.37 percent of the unfunded actuarial accrued liability of the plan that existed in 1982. Combined with $18.6 million in fire state aid since 1982, payable to the Minneapolis Firefighters Relief Association, the State has funded 44 percent of the 1982 Minneapolis Firefighters Relief Association unfunded actuarial accrued liability.

Since 1969, when the Legislature entered the arena of regulating local pension plan funding, the Minneapolis Firefighters Relief Association has sought and received numerous benefit increases, including a survivor benefit change in 1969 (Laws 1969, Chapter 819), a service pension change in 1971 (Laws 1971, Chapter 542), a surviving spouse benefit change in 1975 (Laws 1975, Chapter 57), a survivor benefit change in 1977 (Laws 1977, Chapter 164), the addition of a health and welfare benefit in 1980 (Laws 1980, Chapter 607, Article XV), the addition of a second post-retirement increase mechanism in 1989 (Laws 1989, Chapter 319, Article 19), the addition of a health insurance account and benefit in 1990 (Laws 1990, Chapter 589, Article 1), a survivor benefit change in 1992 (Laws 1992, Chapter 454), a service pension change in 1993 (Laws 1993, Chapter 125), a surviving spouse benefit change in 1994 (Laws 1994, Chapter 591), disability benefit, survivor benefit, and service pension changes in 1996 (Laws 1996, Chapter 448, Articles 2 and 3), surviving spouse benefit and second post-retirement increase mechanism changes in 1997 (Laws 1997, Chapter 233, Article 4), the addition of optional annuity forms in 1998 (Laws 1998, Chapter 390, Article 7), the addition of a third post-retirement increase mechanism in 2000 (Laws 2000, Chapter 499), surviving spouse and disability benefit changes in 2002 (Laws 2002, Chapter 231), and survivor benefit changes in 2003 (Laws 2003, Chapter 12, Article 11). The City of Minneapolis approved all these benefit increases and most of these benefit changes increased the Minneapolis Firefighters Relief Association actuarial accrued liability.

Additionally, without any prior legislative authorization, in 1994, the Minneapolis Firefighters Relief Association Board ratified the salary amount that it recognized as the salary of a top grade firefighter, on which all service pension and other Minneapolis Firefighters Relief Association benefits are based, producing a considerable increase in the Minneapolis Firefighters Relief Association actuarial accrued liability.



Selected Actuarial Valuation Results: Minneapolis Firefighters Relief Association

	1957		1967		1970		1976		1980	
Membership										
Active Members		549		554		540		554		496
Service Retirees		135		175		181		227		217
Disabilitants		71		108		113		139		138
Survivors		238		231		235		238		214
Deferred Retirees		1		0		0		0		0
Nonvested Former Members		--		--		--		--		--
Total Membership		994		1,068		1,069		1,158		1,065
Funded Status										
Accrued Liability		$19,592,577		$43,597,615		$58,546,942		$87,303,694		$130,135,668
Current Assets		$347,569		$237,038		$886,997		$8,963,971		$16,730,899
Unfunded Accrued Liability		$19,245,008		$43,360,577		$57,659,945		$78,339,723		$113,404,769
Funding Ratio	1.77%		0.54%		1.52%		10.27%		12.86%	
Financing Requirements										
Covered Payroll		$3,155,136		$4,168,296		$5,514,480		$9,986,404		$12,906,912
Benefits Payable		$792,464		$1,453,644		$2,045,163		$4,177,339		$5,486,328
Normal Cost	14.14%	$446,161	45.70%	$1,904,703	43.15%	$2,379,608	23.68%	$2,365,202	23.50%	$3,033,124
Administrative Expenses	0.00%	--	0.00%	--	0.00%	--	0.00%	--	0.00%	--
Normal Cost & Expense	14.14%	$446,161	45.70%	$1,904,703	43.15%	$2,379,608	23.68%	$2,365,202	23.50%	$3,033,124
Normal Cost & Expense	14.14%	$446,161	45.70%	$1,904,703	43.15%	$2,379,608	23.68%	$2,365,202	23.50%	$3,033,124
Amortization	26.39%	$832,539	31.21%	$1,300,817	31.37%	$1,729,788	39.22%	$3,916,986	56.63%	$7,308,646
Total Requirements	40.53%	$1,278,700	76.90%	$3,205,520	74.52%	$4,109,396	62.91%	$6,282,188	80.13%	$10,341,770
Employee Contributions	3.00%	$94,768	6.00%	$250,098	6.00%	$330,869	6.00%	$599,184	8.00%	$1,032,553
Employer Contributions	18.16%	$573,118	24.96%	$1,040,355	17.40%	$959,584	40.78%	$4,072,302	72.13%	$9,309,217
Employer Add'l Cont.	--	--	--	--	--	--	--	--	--	--
Direct State Funding	--	--	--	--	--	--	--	--	--	--
Other Govt. Funding	--	--	--	--	--	--	--	--	--	--
Administrative Assessment	--	--	--	--	--	--	--	--	--	--
Total Contributions	21.17%	$667,886	30.96%	$1,290,453	23.40%	$1,290,453	46.78%	$4,671,486	80.13%	$10,341,770
Total Requirements	40.53%	$1,278,700	76.90%	$3,205,520	74.52%	$4,109,396	62.91%	$6,282,188	80.13%	$10,341,770
Total Contributions	21.17%	$667,886	30.96%	$1,290,453	23.40%	$1,290,453	46.78%	$4,671,486	80.13%	$10,341,770
Deficiency (Surplus)	19.36%	$610,814	45.94%	$1,915,067	51.12%	$2,818,943	16.13%	$1,610,702	0.00%	$0
Amortization Target Date	1997		N/A		N/A		N/A		2010	
Actuary	George V. Stennes		Hewitt		Hewitt		Hewitt		Gabriel Roeder Smith	

	1985		1990		1995		2000		2005	
Membership										
Active Members		418		337		236		104		37
Service Retirees		332		347		387		445		385
Disabilitants		23		14		12		8		50
Survivors		200		196		197		200		166
Deferred Retirees		0		0		1		1		0
Nonvested Former Members		--		--		--		--		--
Total Membership		973		894		833		758		638
Funded Status										
Accrued Liability		$181,514,338		$196,490,912		$234,385,886		$293,801,923		$312,563,011
Current Assets		$55,568,427		$119,652,021		$194,611,318		$315,900,478		$269,425,963
Unfunded Accrued Liability		$125,945,911		$76,838,891		$39,774,568		($22,098,555)		$43,137,048
Funding Ratio	30.61%		60.89%		83.03%		107.52%		86.20%	
Financing Requirements										
Covered Payroll		$14,291,838		$13,854,744		$11,838,704		$7,054,115		$2,821,419
Benefits Payable		$7,705,364		$9,364,461		$13,417,874		$19,919,708		$23,543,793
Normal Cost	27.28%	$3,898,813	23.95%	$3,318,211	23.94%	$2,834,186	21.83%	$1,540,141	23.22%	$655,070
Administrative Expenses	0.00%	--	0.00%	--	0.00%	--	0.00%	--	0.00%	--
Normal Cost & Expense	27.28%	$3,898,813	23.95%	$3,318,211	23.94%	$2,834,186	21.83%	$1,540,141	23.22%	$655,070
Normal Cost & Expense	27.28%	$3,898,813	23.95%	$3,318,211	23.94%	$2,834,186	21.83%	$1,540,141	23.22%	$655,070
Amortization	62.32%	$8,906,560	48.27%	$6,687,685	35.10%	$4,155,683	0.00%	$0	138.86%	$3,917,905
Total Requirements	89.60%	$12,805,373	72.22%	$10,005,896	59.04%	$6,989,869	21.83%	$1,540,141	162.08%	$4,572,975
Employee Contributions	8.00%	$1,143,347	8.00%	$1,108,380	8.00%	$947,096	8.00%	$564,329	0.43%	$12,010
Employer Contributions	81.60%	$11,662,026	64.22%	$8,897,516	51.04%	$6,042,773	14.71%	$975,812	235.75%	$6,651,656
Employer Add'l Cont.	--	--	--	--	--	--	--	--	--	--
Direct State Funding	--	--	--	--	--	--	--	--	--	--
Other Govt. Funding	--	--	--	--	--	--	--	--	--	--
Administrative Assessment	--	--	--	--	--	--	--	--	--	--
Total Contributions	89.60%	$12,805,373	72.22%	$10,005,896	59.04%	$6,989,869	22.71%	$1,540,141	236.18%	$6,663,666
Total Requirements	89.60%	$12,805,373	72.22%	$10,005,896	59.04%	$6,989,869	21.83%	$1,540,141	162.08%	6,663,666
Total Contributions	89.60%	$12,805,373	72.22%	$10,005,896	59.04%	$6,989,869	22.71%	$1,540,141	236.18%	4,572,975
Deficiency (Surplus)	0.00%	$0	0.00%	$0	0.00%	$0	(0.88%)	$0	(74.09%)	$2,090,691
Amortization Target Date	2010		2010		2010		2010		2021	
Actuary	Gabriel Roeder Smith		Gabriel Roeder Smith		Gabriel Roeder Smith		Van Iwaarden		Van Iwaarden	

.... moves to amend H.F. No. 2453; S.F. No. 2258, as follows:

Page 2, after line 20, insert:

"Sec. 2. **EFFECTIVE DATE; LOCAL APPROVAL.**

Section 1 is effective the day after the city council of the city of Minneapolis and its chief clerical officer timely complete their compliance with Minnesota Statutes, section 645.021, subdivisions 2 and 3."

State of Minnesota

HOUSE OF REPRESENTATIVES

EIGHTY-FIFTH SESSION

HOUSE FILE NO. 2453

April 24, 2007
Authored by Thissen
The bill was read for the first time and referred to the Committee on Governmental Operations, Reform, Technology and Elections

A bill for an act
relating to retirement; modifying the investment related to postretirement adjustment of the Minneapolis Firefighters' Relief Association; amending Minnesota Statutes 2006, section 423C.06, subdivision 2.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2006, section 423C.06, subdivision 2, is amended to read:

Subd. 2. **Actuarial assets of special fund less than 102 percent.** (a) When the actuarial assets of the special fund in any year are less than 102 percent of its accrued liabilities according to the most recent annual actuarial valuation of the special fund prepared in accordance with sections 356.215 and 356.216, investment-related postretirement adjustments shall be determined and paid pursuant to this subdivision. Payment of the annual postretirement adjustment may be made only if there is excess investment income.

(b) The board shall determine by May 1 of each year whether or not the special fund has excess investment income. The amount of excess investment income, if any, must be stated as a dollar amount and reported by the executive secretary to the mayor and governing body of the city, the state auditor, the commissioner of finance, and the executive director of the Legislative Commission on Pensions and Retirement. The dollar amount of excess investment income up to one percent of the assets of the special fund must be applied for the purpose specified in paragraph (c). Excess investment income must not be considered as income to or assets of the special fund for actuarial valuations of the special fund for that year under this section and sections 69.77, 356.215, and 356.216, except to offset the annual postretirement adjustment. Additional investment income is any realized or unrealized investment income other than the excess investment income and must be included in the actuarial valuations performed under this section and sections 69.77, 356.215, and 356.216.

(c) The amount determined under paragraph (b) must be applied as follows: the association shall apply ~~the first one-half of~~ one percent of assets that constitute excess investment income to the payment of an annual postretirement adjustment to eligible members ~~and the second one-half of one percent of assets which constitute excess investment income shall be applied to reduce the state amortization state aid or supplementary amortization state aid payments otherwise due the association under section 423A.02 for the current calendar year~~. The amounts of all payments to eligible members shall not exceed ~~one-half of~~ one percent of the assets of the fund. The amount of each eligible member's postretirement adjustment shall be calculated by dividing the total number of units to which eligible members are entitled into the excess investment income available for distribution to eligible members, and then multiplying that result by the number of units to which each eligible member is entitled. If this amount exceeds the total monthly benefit that the eligible member was entitled to in the prior year under the terms of this chapter, the association shall pay the eligible member the lesser amount. Payment of the annual postretirement adjustment must be in a lump-sum amount on June 1 following the determination date in any year. In the event an eligible member dies prior to the payment of the annual postretirement adjustment, the executive secretary shall pay the eligible member's estate the amount to which the member was entitled.