H.F. 3744 (Larson)

S.F. 3532 (Larson)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s):	Police and Fire Additional Amortization Aid
Relevant Provisions of Law:	Minnesota Statutes, Section 423A.02, Subdivision 1b
General Nature of Proposal:	Redirection of additional amortization aid newly available after 2009
Date of Summary:	March 25, 2008

Specific Proposed Changes

- Additional amortization state aid freed up after 2009 when the unfunded liability of 10 municipalities with former police or fire consolidation accounts and their additional municipal contribution obligation to the Public Employees Police and Fire Retirement Plan (PERA-P&F) ends is reallocated in equal shares to the St. Paul Teachers Retirement Fund Association (SPTRFA), the city of Minneapolis, the city of Duluth, and the minimum volunteer firefighter fire state aid program.

Policy Issues Raised by the Proposed Legislation

1. Appropriateness of the designated recipients of redirected aid.
2. Appropriateness of proposed allocations to designated redirected aid recipients.
3. Lack of allocation procedure for Minneapolis redirected aid when its police and firefighter relief associations become fully funded.
4. Lack of aid termination date and reallocation procedure for Duluth redirected aid.
5. State general fund impact of the proposed legislation.
6. Need for a general reappraisal of the numerous amortization and related pension aid programs.

Potential Amendments

H3744-1A is a technical amendment intended to make the current statute and added provisions more readable.

H3744-2A redirects aid amounts to SPTRFA, TRA, and minimum fire state aid, the current designated aid redirection recipients.

H3744-3A expands proposed aid redirection recipients to five by adding TRA.

H3744-4A allows commission to specify different redistribution percentages

H3744-5A requires better disclosure of amortization dates by Minneapolis police and fire relief associations.

H3744-6A requires disclosure of specific average age and average life expectancy information by Minneapolis police and fire relief associations

H3744-7A specifies a reallocation of Minneapolis redirected aid when Minneapolis police and fire become fully funded.

H3744-8A sets redirection aid termination date for Duluth and reallocation procedure for subsequent amounts.

H3744-9A sets Duluth redirection aid termination based on receipt of a total amount to be specified, with reallocation procedure.

H3744-10A sunsets amortization aid programs at a designated future date (to be specified) to spur a reevaluation of aid programs.

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director LAM

RE: H.F. 3744 (Thissen); S.F. 3532 (Larson): Local Police and Fire Additional Amortization Aid; Reallocation of Aid for Consolidated Local Police and Fire Relief Associations

DATE: March 25, 2008

Summary of H.F. 3744 (Thissen); S.F. 3532 (Larson)

H.F. 3744 (Thissen); S.F. 3532 (Larson) amends Minnesota Statutes, Section 423A.02, Subdivision 1b, the allocation of additional amortization aid to various local police and fire relief associations and other public pension plans, by specifying the allocation to the St. Paul Teachers Retirement Fund Association (SPTRFA), to the Minneapolis Police Relief Association and Minneapolis Firefighters Relief Association, to the city of Duluth, and to the minimum volunteer firefighter fire state aid program of the additional amortization aid amounts freed up after the 2009 full funding of local police and paid fire relief associations that merged with the Public Employees Police and Fire Retirement Plan (PERA-P&F) in 1999.

Background Materials

Attached is background information applicable to retirement plans and state aid programs affected by or relevant to the proposed legislation:

Attachment A: The Amortization State Aid Programs; Including Additional Amortization Aid. The attachment provides information on the local police and fire relief association amortization state aid program, the supplemental amortization state aid program, and the additional amortization state aid program.

Attachment B: The 1987 Local Police and Paid Firefighter Relief Association Consolidation Law and the 1999 PERA-P&F Consolidation Account Merger Law. The attachment provides information on the 1987 legislation that permitted local police or paid firefighter relief associations to consolidate with the Public Employees Retirement Association (PERA) and on the 1999 legislation that permitted the local consolidation accounts to merge into the Public Employees Police and Fire Retirement Plan (PERA-P&F).

Attachment C: Duluth Police and Firefighters Relief Associations and Consolidation Accounts. The attachment provides information on the Duluth Police and Fire pension programs that consolidated with PERA in 1987 and 1992, respectively, and were merged into PERA-P&F in 1999.

Attachment D: Minneapolis Police Relief Association. The attachment provides information on the Minneapolis Police Relief Association.

Attachment E: Minneapolis Firefighters Relief Association. The attachment provides information on the Minneapolis Firefighters Relief Association.

Attachment F: Minimum Volunteer Firefighter Relief Association State Aid Program. The attachment provides information on the additional funding in the Fire State Aid program that is directed to establishing a per firefighter aid floor.

Attachment G: St. Paul Teachers Retirement Fund Association. The attachment provides information on the St. Paul Teachers Retirement Fund Association (SPTRFA).

Attachment H: Police and Paid Fire State Aids Chart. The attachment, from 2000, demonstrates graphically the interconnection of the various state aid programs funding police and fire retirement costs.

Technical Amendment.

Amendment H3744-1A makes the current aid redirection provisions and the proposed aid reduction provision a separate paragraph, aligns the reduction provisions in the same order as the aid recipient paragraph, and uses cross-references rather than percentage references to refer to aid amounts subject to potential redirection.

Discussion and Analysis

H.F. 3744 (Thissen); S.F. 3532 (Larson) reallocates the additional amortization state aid previously paid to municipalities with local police and paid fire consolidation accounts that merged with the Public Employees Police and Fire Retirement Plan (PERA-P&F) in 1999, with the 64.5 percent of additional amortization state aid for those former consolidation accounts divided 25 percent for the St. Paul Teachers Retirement Fund Association (SPTRFA), 25 percent for the Minneapolis Police Relief Association or the Minneapolis Firefighters Relief Association, 25 percent for the city of Duluth for police and fire association costs, and 25 percent for the minimum volunteer firefighter fire state aid program.

The proposed legislation raises several pension and related public policy issues for Commission consideration and possible discussion, as follows:

1. Appropriateness of the Designated Recipients of Redirected Aid. The policy issue is the appropriateness of the designated recipients of the additional amortization aid redirected once the former local police and fire consolidation accounts that merged with the Public Employees Police and Fire Retirement Plan (PERA-P&F) in 1999 and have their additional municipal contribution requirement under Minnesota Statutes, Section 353.665, Subdivision 8, Paragraph (b), end after December 31, 2009. There are currently 12 additional amortization state aid recipients, ten municipalities by virtue of previously underfunded consolidation accounts (Anoka, Columbia Heights, Crookston, Duluth, Faribault, Hibbing, Mankato, St. Cloud, South St. Paul, and Winona), , the city of Minneapolis by virtue of the underfunded Minneapolis Police Relief Association, and Virginia by virtue of the underfunded Virginia Fire Department Relief Association. Current law (added by Laws 1999, Chapter 222, Article 4, Section 15) makes provision for redirecting the applicable additional amortization state aid if the Minneapolis Police and Fire Relief Associations both become fully funded or if the Virginia Fire Department Relief Association, with in each case 49 percent of the redirected aid payable to the Teachers Retirement Association (TRA) (as successor to the former Minneapolis Teachers Retirement Fund Association), 21 percent of the redirected aid payable to the St. Paul Teachers Retirement Fund Association (SPTRFA), and 30 percent to the minimum volunteer firefighter fire state aid program.

   The proposed legislation would allocate the additional amortization state aid available for redirection by virtue of the full funding of the remaining former consolidation accounts one-quarter each to the St. Paul Teachers Retirement Fund Association, to the city of Minneapolis for the Minneapolis Police Relief Association and Minneapolis Firefighters Relief Association, to the city of Duluth for police and fire relief association costs, and to the minimum volunteer firefighter fire state aid program. The new proposed allocation excludes one potential recipient included in the current law redirections, the Teachers Retirement Association, standing in the stead of the Minneapolis Teachers Retirement Fund Association, and includes two potential recipients not included in the current law redirections, the city of Duluth and the city of Minneapolis. The practice of redirecting "unused" state aid dedicated to offsetting pension costs dates back at least to the 1980s, when "excess" police state aid was redirected to support the Public Employees Insurance Program, and has made virtually all of the pension-related state aid programs more complicated. It is difficult to identify why the particular recipients of the 1999 redirected additional amortization state aid were selected, as a choice made by the proponents of the 1999 local consolidation account merger bill, but the Commission staff issue memorandum on that proposed legislation did raise the questions of whether redirecting public-safety-related state aid money to teacher retirement plans was appropriate and whether the particular selected recipients were the most appropriate group. SPTRFA and the city of Minneapolis, based on pension funding problems, remain as problematic or more so as they were in 1999. As the inheritor of the MTRFA funding problems, TRA remains a likely recipient of any redirection, but is not made eligible in the proposed legislation. The volunteer firefighter fire state aid floor program has (and will always have) a pension funding need so long as the base fire state aid allocation method, based on the relative population and property value of the applicable fire town, produces dramatic "have" and "have not" recipients of aid. The inclusion of the city of Duluth, which ends its additional police and fire pension cost employer contribution in 2009, just before the start of the redirection in 2010, is without any self-apparent claim to the redirection, since it will have no increased police or fire pension costs after 2009.

   If the Commission believes that the recipients of the redirected former consolidation account amortization aid should replicate the set of recipients under the current aid redirection provision, Amendment H3744-2A would make that change.

   If the Commission desires to add the omitted recipient of the previously enacted aid redirection provisions to the four proposed recipients of the new redirection, Amendment H3744-3A includes the Teachers Retirement Association to expand the total number of recipients to five.

2. Appropriateness of Proposed Allocations to Designated Redirected Aid Recipients. The policy issue is the appropriateness of the allocations specified in the proposed legislation for the amounts of redirected amortization state aid amounts for the four designated recipients. Each recipient is

allocated one-quarter of the amount of redirected amortization state aid. If the amount of additional amortization state aid remains constant at the 2007 level through 2010, the St. Paul Teachers Retirement Fund Association (SPTRFA) would receive $245,476.75, the city of Minneapolis would receive $245,476.75, the city of Duluth would receive $245,476.75, and the minimum volunteer firefighter fire state aid would receive $245,476.75.

The current annual funding deficiency of SPTRFA is in excess of $18.7 million, so the designated amount is not inappropriate based on the current unpaid funding costs. The most recent funding of the Minneapolis Police and Fire Relief Associations yields a net funding surplus of slightly more than $1.6 million, so the aid amount would be appropriate if the intended goal is to provide budgetary relief for the city of Minneapolis. The designated funding for the city of Duluth is indicated as being for "any costs associated with the police and firefighters relief associations." Since the city of Duluth no longer has local police and firefighters relief associations and the additional costs that it had for the former Duluth police and fire consolidation accounts end December 31, 2009, there are not new or ongoing unpaid pension costs for Duluth that are being covered by the redirected aid amount and the provision would be appropriate if the goal is to provide a general municipal aid to the city of Duluth. The minimum volunteer firefighter fire state aid provides additional fire state aid to municipalities and nonprofit firefighting corporations where the amount is used for establishing a floor fire state aid amount. The volunteer firefighter minimum fire state aid redirection would be appropriate if there is a desire to provide additional fire state aid to the least generous volunteer firefighter relief associations in order to attract or retain their firefighters with an additional benefit that cannot be met from any other reasonable source. If the Commission believes that a different allocation percentage for the various redirected amortization aid amounts would be appropriate, Amendment H3744-4A would provide a mechanism to do so, with the percentages to be specified by the maker of the motion.

3. Lack of Allocation Procedure for Minneapolis Redirected Aid When Police and Firefighter Relief Associations Become Fully Funded. The policy issue is the appropriateness of omitting in the proposed legislation any method for the subsequent allocation of the redirected amortization aid payable to the city of Minneapolis when its police and firefighter relief associations become fully funded. The proposed legislation is clear in its intention to assist in the funding of the Minneapolis Police Relief Association and the Minneapolis Firefighters Relief Association, but lacks any mechanism to discontinue the redirected aid amount when those two relief associations become fully funded and the redirected aid could be utilized in a different fashion. The required amortization date for the Minneapolis Police Relief Association is the year 2020, or if the relief association achieves full funding and then again has an unfunded actuarial accrued liability, the end of the calendar year occurring 15 years after each subsequent actuarial valuation, but not to exceed the average remaining lifetime of the plan membership. The required amortization date for the Minneapolis Firefighters Relief Association is the end of the calendar year occurring 15 years after each actuarial valuation, but not to exceed the average remaining lifetime of the plan membership.

   The Minneapolis Firefighters Relief Association and Minneapolis Police Relief Association actuarial valuations do not indicate the average remaining lifetime of the entire plan membership or the applicable required amortization date provisions, which are deficiencies in both actuarial valuation reports. From the membership data that is presented in the Minneapolis Firefighters Relief Association actuarial valuation, the current average age for the plan membership is 71.4 years. While the Commission staff was unable to calculate the remaining life expectancy for each plan member under the plan's recently revised mortality table, some sense of the applicable amortization period for the Minneapolis Firefighters Relief Association, if properly calculated by the consulting actuary, could be gained by using the Minnesota average life expectancies (age 76.5 for males and age 81.5 for females) averaged for the composition of the plan (71.55 percent male and 28.45 percent female), or age 77.9, leaving a likely amortization period of 6.5 years and a likely required full funding date of 2013. The Minneapolis Police Relief Association actuarial valuation also does not present any data on the average ages of retirees or survivors, which the Minneapolis Firefighters Relief Association actuarial valuation, prepared by the same actuary, presents.

   If the Commission is concerned about the lack of disclosure about the required amortization dates for the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association, the situation could be remedied by Amendment H3744-5A, which requires the disclosure of the amortization date used to calculate the amortization requirement in the annual financial requirements of the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association, requires specification of the statutory citation governing that requirement, and, if based on average remaining lifetimes of the plan membership, requires the disclosure of the underlying calculations of the average remaining lifetime.

If the Commission is concerned about the current lack of disclosure in the Minneapolis Firefighters Relief Association and Minneapolis Police Relief Association of average plan member age and life expectancy, Amendment H3744-6A requires average age and life expectancy disclosure.

If the Commission concludes that some provision is needed for the reallocation of additional amortization aid redirected to Minneapolis under the proposed legislation once the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association are both fully funded, Amendment H3744-7A reallocates the Minneapolis aid amount to the Teachers Retirement Association (TRA) as the successor to the former Minneapolis Teachers Retirement Fund Association (MTRFA), to the St. Paul Teachers Retirement Fund Association (SPTRFA), and to the minimum volunteer firefighter fire state aid in equal parts.

4. Lack of Aid Termination Date and Reallocation Procedure for Duluth Redirected Aid. The policy issue is the appropriateness of providing redirected aid to the city of Duluth without any specified termination event or date and without any procedure for reallocating the city of Duluth redirected additional amortization aid amount when the appropriate termination event or date for the city of Duluth is reached. The proposed legislation indicates that the redirected additional amortization aid is "to pay for any costs associates with the police and firefighters relief associations." Since the Duluth Fire Department Relief Association and Duluth Police Relief Association consolidated into the Public Employees Retirement Association (PERA) in 1992 and 1987, respectively, and the two consolidation accounts merged with the Public Employees Police and Fire Retirement Plan (PERA-P&F) in 1999, with the final additional municipal contribution for the remaining unfunded liability of the former Duluth Fire Consolidation Account to be fully paid on December 31, 2009, and since the city of Duluth will have no police and firefighters relief association costs to fund after 2009, there is no readily identifiable event on which to specify a termination date for the proposed redirected Duluth aid.

   Amendment H3744-8A sets a to-be-determined date for the redirected Duluth aid to be terminated, with the succeeding state aid amount reallocated to the Teachers Retirement Association (TRA) as the successor to the former Minneapolis Teachers Retirement Fund Association (MTRFA), to the St. Paul Teachers Retirement Fund Association (SPTRFA), and to the minimum volunteer firefighter fire state aid in equal amounts.

   Amendment H3744-9A sets the termination of the state aid redirected to Duluth when a yet-to-be-determined total dollar amount of aid has been achieved, with the succeeding state aid amount reallocated as provided in Amendment H3744-8A.

5. State General Fund Impact. Although the policy issue is of greater potential interest to the tax committees, where the amortization aid programs are part of budget targets, and to the appropriations/finance committees, the redirection of the additional amortization state aid amounts freed up by the reaching of the full funding target dates of most of the local police and paid fire relief associations and consolidation accounts impacts on the State General Fund and may be of concern to the Commission. Normally, unexpended state appropriations cancel back to the State General Fund. When programs with State General Fund appropriations terminate, the appropriations usually revert to the General Fund. With a number of pension-related state aids, that reversion to the General Fund has generally been avoided by redirecting the pension-related aid to another pension-related problem area. Whether having those redirections continue indefinitely is good policy both for the General Fund and for Minnesota public pensions is open to question. The proposed legislation, if added to an omnibus retirement bill rather than continuing thorough the process on its own as a freestanding bill, would likely cause the omnibus retirement bill to be re-referred to the appropriations/finance committees.

6. Need for a General Reappraisal of the Numerous Amortization and Related Pension Aid Programs. Although the intertwining and expansion of pension paid programs may have been a beneficial pension practice in the past, the intertwining and expansion of those aid programs has resulted in a highly confusing commitment of state financial resources to pension programs and raises the policy issue of whether or not a reconsolidation and simplification of the current programs is appropriate. Because of the complexity of the current situation, any reappraisal and realignment or reformulation should only occur after the Commission has had a chance to conduct an interim study on the topic to identify all of the key elements and to weigh the perspectives of interested parties before settling on any proposal. If the Commission desires to ensure that reevaluation of the amortization state aid programs occurs in an upcoming Interim, Amendment H3744-10A sets a sunset date earlier than the full funding of the St. Paul Teachers Retirement Fund Association, the current aid program termination event, for the three aid programs at December 31 of a year to be specified.

Attachment A

Background Information on the Amortization State Aid Programs, Including Additional Amortization State Aid

a. In General. As part of the resolution of the issue of the manner in which pension coverage is provided to police officers and firefighters, state aid programs were established to assist the applicable municipalities in meeting the additional financial obligations that accompanied that coverage resolution. Three state aid programs were established, the local police and paid fire amortization state aid, the supplemental police and paid fire amortization state aid, and the additional amortization state aid.

b. Amortization State Aid.

1. Establishment. The local police and paid fire relief association amortization state aid was established in 1980 (Laws 1980, Chapter 607, Article XV, Section 5), as part of the legislation provided for the closing of most local police and paid fire relief associations to new entrants. The program is currently coded as Minnesota Statutes, Section 423A.01, Subdivision 1. In 1980, local police and salaried firefighter relief associations were closed to new members. New hires were redirected to PERA-P&F. Since the local relief associations would eventually terminate due to closing the plans to new members, there was a need to address funding and bring closure to their actuarial accrued liabilities. The plans were required in 1980 to amortize their unfunded actuarial accrued liabilities by the year 2010. As additional state assistance, the amortization aid program was established. The aid was designed to cover a portion of the annual amortization requirement, given the unfunded actuarial accrued liabilities that existed as of the 1978 actuarial valuation of the fund. The amortization aid to the relief association equaled the difference between the full amortization requirement on the relief association's 1978 unfunded actuarial accrued liability and the interest only requirement on the same unfunded actuarial accrued liability. The aid was meant to be a fixed amount, leaving local governments responsible for any increases in unfunded actuarial accrued liabilities due to future poor investment returns, high expenses, benefit improvements, mortality losses, or any other cause that acts to increase unfunded actuarial accrued liabilities. The intent was to provide some state assistance while still providing incentives for prudent local management of the assets of the fund.

2. Source of the Amortization State Aid Revenue. Local police and paid fire amortization state aid was initially funded and remains funded from the State General Fund.

   The initial amortization state aid in 1980 was an open and standing appropriation, totaling $6,574.598.

   In 1989 (Laws 1989, Chapter 319, Article 19, Section 7, and Laws 1989, Chapter 335, Article 1, Section 48), the amounts of amortization aid for the Minneapolis police and fire relief associations were reduced in connection with the passage of the investment-related thirteenth check post-retirement adjustment for the fiscal year 1990-fiscal year 1991 biennium. In 1991 (Laws 1991, Chapter 345, Article 1, Section 92), that reduction for the Minneapolis police and fire relief associations was made permanent, with the total amortization aid amount capped at $5,055,000, and the open and standing appropriation language was eliminated, making the program dependent on biennial State General Fund direct appropriations. Local police and paid fire amortization state aid has been appropriated every biennium during the period 1989-1999.

   Local police and paid fire amortization state aid has declined in amount since its initiation in 1980, by virtue of the Minneapolis Police Relief Association and the Minneapolis Firefighters Relief Association aid reductions and by virtue of the increase in the number of local relief associations that lose qualifications for aid by becoming fully funded, as follows:

Year	Total Amortization Aid	Paid Fire Share	Police Share
1980	$6,574,598	$3,092,275	$3,482,323
1981	6,574,598	3,092,275	3,482,323
1982	6,574,598	3,092,275	3,482,323
1983	6,574,598	3,092,275	3,482,323
1984	6,574,598	3,092,275	3,482,323
1985	6,574,598	3,092,275	3,482,323
1986	6,574,598	3,092,275	3,482,323
1987	6,574,598	3,092,275	3,482,323
1988	6,574,598	3,092,275	3,482,323

Year	Total Amortization Aid	Paid Fire Share	Police Share
1989	6,574,598	3,092,275	3,482,323
1990	6,574,598*	3,092,275*	3,482,323*
1991	6,574,598*	3,092,275*	3,482,323*
1992	5,054,598*	2,319,507*	2,735,091*
1993	6,536,774*	3,092,275*	3,444,499*
1994	6,436,774*	3,078,286*	3,358,458*
1995	6,371,049*	3,047,362*	3,323,687*
1996	6,240,998*	3,018,608*	3,222,390*
1997	2,974,389	1,528,768	1,445,621
1998	1,958,033	1,427,183	530,850
1999	1,727,824	1,250,444	477,380
2000	1,639,219	1,250,444	388,775
2001	1,616,837	1,235,602	381,235
2002	2,668,756	1,250,444	1,418,312
2003	1,977,698	559,386	1,418,312
2004	1,318,465	372,964	945,501
2005	1,332,119	386,579	945,540
2006	1,219,119	345,579	945,540
2007	645,761	427,546	218,215

* *Amount does not include reductions for excess investment income under the 13th check post-retirement adjustment mechanism for the Minneapolis Police Relief Association and for the Minneapolis Firefighters Relief Association.*

3. Qualification Requirements for Receipt of Amortization State Aid. Initially, in 1980, municipalities with a local police or paid fire relief association governed by the 1969 Police and Paid Fire Relief Association Financing Guidelines Act (Minnesota Statutes, Section 69.77) and began phasing-out into the PERA-P&F were eligible to receive local police and paid fire relief association amortization aid. These municipalities qualified for amortization state aid if they applied to the Commissioner of Finance for the aid, complied with the police and fire state aid program aid deposit and financial reporting requirements, and complied with the 1969 Financing Guidelines Act.

   Under 1985 legislation (Laws 1985, Chapter 261, Section 5), municipalities that qualified for amortization state aid with a local relief association remained qualified for amortization state aid following consolidation with PERA-P&F.

   In 1986 (Laws 1986, Chapter 359, Section 17), the administration of the amortization state aid program was transferred from the Commissioner of Finance to the Commissioner of Revenue.

   In 1992 (Laws 1992, Chapter 437, Section 1), the qualification requirement of a local relief association phase-out into PERA-P&F was eliminated, recognizing that all local police and paid fire relief associations were closed to new entrants by that date. The continued existence of an unfunded actuarial accrued liability in the most recent actuarial valuations under the state actuarial reporting law (Minnesota Statutes, Section 356.215) was added as a requirement. Upon its relief association becoming fully funded, the applicable municipality lost its eligibility for amortization state aid for that year and all subsequent years. Also in 1992, for consolidation accounts, eligibility for amortization state aid was clarified as a function of whether or not the municipality had an additional municipal contribution under the consolidation law (Minnesota Statutes, Section 353A.09, Subdivision 5).

   In 1996 (Laws 1996, Chapter 438, Article 4, Section 9), the portion of prior amortization aid under $5.72 billion that is released on behalf of fully funded local police or paid fire relief associations or local police or paid fire consolidation accounts within PERA-P&F was redirected from cancellation back to the State General Fund to the Minneapolis Teachers Retirement Fund Association (MTRFA), to the St. Paul Teachers Retirement Fund Association (SPTRFA), and to fund the minimum volunteer firefighter fire state aid provision (Minnesota Statutes, Section 69.021, Subdivision 7, Paragraph (d)). The minimum volunteer firefighter fire state aid amount has no qualification requirements. The MTRFA and SPTRFA redirected portion of the aid is dependent on having an unfunded actuarial accrued liability and a funding ratio less than that of the statewide Teachers Retirement Association (TRA), on each applicable school district making a required additional contribution to the respective teacher retirement fund association ($200,000 in 1998 increasing to $800,00 in 2001 and thereafter by Independent School District No. 625; and $250,000 in 1998 increasing to $1,000,000 in 2003 and thereafter by Special School District No. 1), and, for the MTRFA, on the city of Minneapolis making a required additional contribution to the teachers retirement fund association ($250,000 in 1998 increasing to $1,000,000 in 2003 and thereafter).

In 1997 (Laws 1997, Chapter 241, Article 9, Section 1), a municipality that lost eligibility for local police and paid fire relief association amortization state aid because of its consolidation account becoming fully funded and again has an additional municipal contribution due to the 1997 actuarial assumption changes approved for PERA-P&F and the various consolidation accounts would regain eligibility for the amortization state aid and supplemental amortization state aid.

4. Allocation of Local Police and Paid Fire Relief Association Amortization State Aid. Local police and paid fire relief association amortization state aid is allocated on the basis of the difference between the five percent interest on the relief association unfunded actuarial accrued liability as of December 31, 1978, as reported under the actuarial reporting law (Minnesota Statutes, Sections 356.215 and 356.216) and the 32-year (year 2010), five percent interest level dollar amortization requirement for the same relief association unfunded actuarial accrued liability. Under Minnesota Statutes 1978, Section 69.77, all municipalities with local police or paid fire relief associations were required as of 1980 to freeze their unfunded actuarial accrued liabilities by paying the actuarially assumed interest rate (five percent) on the unfunded actuarial accrued liability in addition to the relief association normal cost. In 1980, these municipalities were newly required to amortize those unfunded actuarial accrued liabilities and the amortization state aid provided the necessary additional funding support.

   In 1989-1991, the amortization state aid payable to Minneapolis was reduced with the addition of the "thirteenth check" post-retirement adjustment mechanism for the Minneapolis Police Relief Association and for the Minneapolis Firefighters Relief Association and the reduction was made permanent. In 1996 legislation (Laws 1996, Chapter 438, Article 4, Sections 10 to 13), the Minneapolis police and fire "thirteenth check" investment performance threshold was redefined such that the post-retirement adjustment is a virtual future certainty and Minneapolis is essentially eliminated from the amortization state aid allocation.

   Initially, in 1980, the amortization state aid was payable in four roughly quarterly equal installments (March 15, July 15, September 15, and December 15). In 1996 (Laws 1996, Chapter 438, Article 4, Section 8), the frequency of amortization state aid payments was reduced to three equal installments (July 15, September 15, and November 15).

5. Permissible Uses of the Amortization State Aid. Local police and paid fire relief association amortization state aid is payable to the treasurer of the applicable municipality and is required to be transmitted to the respective relief association treasurer for immediate deposit in the relief association.

c. Supplemental Amortization State Aid.

1. Establishment. The supplemental police and paid fire amortization state aid was initially established in 1984 (Laws 1984, Chapter 564, Section 48). The aid program was not initially codified. The supplemental amortization state aid was intended to provide state assistance to the then-existing 48 local police and paid fire relief associations in addition to that provided by the local police and paid fire relief association amortization state aid.

   The supplemental amortization state aid was finally codified as Minnesota Statutes, Section 423A.02, Subdivision 1a, in 1991 (Laws 1991, Chapter 345, Article 1, Section 92).

2. Source of Supplement Amortization State Aid Revenue. The supplemental police and paid fire amortization state aid was initially funded from an open and standing appropriation from the State General Fund (Laws 1984, Chapter 564, Section 48). In 1991, the appropriation was shifted from an open and standing appropriation to a direct biennial appropriation.

   The state resources committed to supplemental amortization state aid have been $1,000,000 annually for the calendar years 1984-1991, $553,000 for calendar year 1993, $1,000,000 annually for calendar years 1994 and 1995, $521,604 for calendar year 1996, and $520,244 for calendar year 1997.

3. Qualification Requirements for Receipt of Supplemental Amortization State Aid. Initially, in 1984 (Laws 1984, Chapter 564, Section 48) and currently, the sole requirement to qualify to receive supplemental amortization state aid was entitlement to receive local police and paid fire relief association amortization state aid.

4. Allocation of Supplemental Amortization State Aid. Initially, in 1984, supplemental amortization state aid was allocated in proportion to the relationship that each applicable relief association's

most recent unfunded actuarial accrued liability bears to the most recent total unfunded actuarial accrued liabilities of all applicable relief associations.

In 1985 (Laws 1985, Chapter 261, Section 17), the allocation procedure for supplemental amortization state aid changed to an allocation in proportion to the relationship that each relief association's December 31, 1983, unfunded actuarial accrued liability bears to the most recent total unfunded actuarial accrued liabilities of all applicable relief associations. In the 1991 codification of the supplemental amortization state aid (Laws 1991, Chapter 345, Article 1, Section 92), the allocation procedure was returned to the 1984 allocation procedure (most recent actuarial valuation results) and the aid was made payable to the applicable relief associations. In 1992, clarifying the 1991 codification, the allocation procedure was revised again to incorporate the 1985 allocation procedure (December 31, 1983, actuarial valuation results) and the aid was made payable to municipalities rather than directly to relief associations.

Allocations of supplemental amortization state aid are adjusted over time. Under the "thirteenth check" post-retirement adjustment mechanism of the Minneapolis Police Relief Association and of the Minneapolis Firefighters Relief Association (Laws 1989, Chapter 319, Article 19, Section 7), if sufficient excess investment income is generated to permit the payment of a "thirteenth check" post-retirement adjustment, supplemental amortization state aid is also reduced with amortization state aid by the amount of the thirteenth check post-retirement adjustment payments. If police or paid fire relief associations become fully funded and consequently lose eligibility for supplemental amortization state aid, the supplemental amortization state aid attributable to that relief association is reallocated to all remaining relief associations.

The following summarizes the allocation of the supplemental amortization state aid between police relief associations and paid fire relief associations 1984-2007:

Year	Total Supplemental State Aid	Fire Relief Association Aid Portion	Police Relief Association Aid Portion
1984	$1,000,000	$489,389	$510,611
1985	1,000,000	489,389	510,611
1986	1,000,000	489,389	510,611
1987	1,000,000	489,389	510,611
1988	1,000,000	489,389	510,611
1989	1,000,000	489,389	510,611
1990	1,000,000	489,389	510,611
1991	1,000,000	489,389	510,611
1992	1,000,000	489,389	510,611
1993	553,000	288,410	264,590
1994	1,000,000	499,828	500,172
1995	1,000,000	497,101	502,899
1996	521,604	281,733	239,871
1997	520,244	287,510	232,734
1998	435,333	330,299	105,034
1999	543,483	411,135	132,348
2000	529,703	415,993	113,710
2001	279,229	165,519	113,710
2002	749,526	165,519	584,007
2003	749,526	165,519	584,007
2004	749,526	165,519	584,007
2005	749,526	165,519	584,007
2006	749,526	165,519	584,007
2007	572,136	165,519	406,617

5. Permissible Uses of Supplemental Amortization State Aid. Supplemental amortization state aid is only permitted to be used by a municipality for transmittal to the applicable local police or paid fire relief association treasurer for immediate deposit into the relief association special fund.

d. Additional Amortization State Aid.

1. Establishment. The additional amortization state aid was established in 1995 (Laws 1995, Chapter 262, Article 4, Section 1). The additional amortization state aid was intended by the Legislative Commission on Pensions and Retirement to provide additional support to the remaining under-funded local police and paid fire relief associations and consolidation accounts from state resources previously dedicated for police pension funding purposes in the form of excess police state aid.

The additional amortization state aid program was moved from Minnesota Statutes, Section 353.65, Subdivision 7, to Minnesota Statutes, Section 423A.02, in 1996 (Laws 1996, Chapter 390, Section 35). The 1996 legislation revised and rationalized the provisions of the 1995 legislation. The additional amortization state aid was effective October 1, 1997, by terms of both the 1995 and the 1996 legislation.

2. Source of Additional Amortization State Aid Revenue. Additional amortization state aid is funded from one-half of the amount of excess police state aid under Minnesota Statutes, Section 69.031, after deduction of the funding related to the statewide ambulance service personnel longevity award and incentive program ($1,000,000 annually from 1994 until 2002; $900,000 annually from 2003 until 2007; but undedicated to the ambulance longevity program) and after deduction of any funding dedicated to a potential police officer stress reduction program, if enacted. The balance of the excess police state aid cancels to the State General Fund.

   Excess police state aid is generated by the relative generosity of the police state aid program, which provides aid per police officer in an amount larger than the public employer's pension obligation to the applicable public pension plan for most counties, municipalities, and townships receiving police state aid. Currently, police state aid is $6,358.66 per police officer, covering the full employer pension obligation to PERA-P&F for any governmental employer with an average police officer salary under $55,778 annually. Fiscal year 1996 through 1997 average PERA-P&F covered salary was $43,851. For the 1997 police state aid allocation, 476 out of 506 recipients (94.07 percent) had excess police state aid, with the average excess police state aid of $15,530.40 for each recipient with excess police state aid.

   Additional amortization state aid was first paid on October 1, 1997. The 1997 additional amortization aid totaled $3,196,236.

3. Qualification Requirements for Receipt of Additional Amortization State Aid. Local police and paid fire relief associations and consolidation accounts qualify for additional amortization state aid. For a local police or paid fire relief association or for a local police or paid fire consolidation account in PERA-P&F to qualify for additional amortization aid, the local relief association must comply with the 1969 Police and Paid Fire Relief Association Financing Guidelines Act, Minnesota Statutes, Section 69.77, and must have an unfunded actuarial accrued liability in the most recent actuarial valuation reports under the general actuarial reporting law, Minnesota Statutes, Sections 356.215 and 356.216, and the local consolidation account must be certified by the Public Employees Retirement Association (PERA) executive director as having a current year additional municipal contribution and must have implemented any PERA-P&F benefit improvements that were enacted after the effective date of the consolidation.

4. Allocation of Additional Amortization State Aid. Additional amortization state aid is allocated in proportion to the relationship that each local police or paid fire relief association or local police or paid fire consolidation account's unfunded actuarial accrued liability bears to the total unfunded actuarial accrued liability of all eligible relief associations or consolidation accounts. The local relief association unfunded actuarial accrued liability figure is as of December 31, 1993, and the local consolidation account unfunded actuarial accrued liability figure is as of June 30, 1994.

   The following summarizes the allocation of additional amortization aid between police relief associations and paid fire associations in general during the period 1997-2007:

Year	Total Additional Amortization State Aid	Fire Relief Association Aid Portion	Police Relief Association Aid Portion
1997	$3,196,236	$1,807,735	$1,388,501
1998	3,434,031	1,973,222	1,460,809
1999	2,106,474	955,957	1,150,517
2000	4,164,411	2,154,721	2,009,690
2001	8,665,401	4,483,595	4,181,806
2002	5,161,643	2,670,704	2,490,939
2003	5,180,670	1,984,870	3,195,800
2004	6,990,276	2,668,772	4,321,504
2005	6,405,961	2,446,911	3,959,050
2006	4,843,428	1,840,218	3,003,210
2007	1,800,372	687,752	1,112,628

Over the period 2005-2007, additional amortization aid was payable to 12 municipalities, as follows:

Municipality/Plan	2005	2006	2007
Anoka Police	$12,184	$9,103	$3,384
Columbia Heights Police	32,127	24,003	8,922
Crookston Fire	11,520	9,848	3,661
Crookston Police	18,060	15,439	5,739
Crookston Total	29,580	25,287	9,400
Duluth Fire	1,429,746	1068,221	397,073
Duluth Police	577,438	431,427	160,368
Duluth Total	2,007,184	1499,648	557,441
Faribault Fire	131,060	110,403	41,038
Faribault Police	95,114	80,122	29,782
Faribault Total	226,174	190,525	70,820
Hibbing Fire	157,714	117,834	43,801
Hibbing Police	94,577	70,662	26,266
Hibbing Total	252,291	188,496	70,067
Mankato Fire	85,604	63,958	23,774
Minneapolis Police	2,839,137	2,121,232	788,493
St. Cloud Fire	244,871	182,953	68,006
South St. Paul Fire	63,257	55,570	20,656
South St. Paul Police	184,591	162,158	60,277
South St. Paul Total	247,848	217,728	80,933
Virginia Fire	107,920	80,632	29,972
Winona Fire	215,219	160,799	59,771
Winona Police	105,822	79,064	29,389
Winona Total	321,041	239,863	89,160
Total	**6,405,961**	**4,843,428**	**1,800,372**

5. Permissible Uses of Additional Amortization State Aid. Additional amortization state aid is payable solely and directly to the applicable relief association or consolidation account.

Attachment B

Background Information on the 1987 Local Police and Paid Firefighter Relief Association Consolidation Law and the 1999 PERA-P&F Consolidation Account Merger Law

a. Background Information on Local Public Safety Pension Plan Consolidation with PERA-P&F. Minnesota Statutes, Chapter 353A, enacted in 1987, authorizes local police or paid fire relief associations to undertake an administrative consolidation of the relief association with PERA-P&F and authorizes the active members of a consolidated local relief association to elect between the local relief association benefit plan coverage and that of PERA-P&F. Individuals who were deferred members or benefit recipients as of the date of consolidation have a more limited option. The PERA-P&F provision available to individuals who were retired, deferred, or disabled on the effective date of the consolidation is limited to an option to have the post-retirement adjustment determined under the PERA-P&F procedure rather than those applicable to the local plan. Except for that limited option, the benefit provisions of the local plan apply.

A local relief association consolidation with PERA-P&F is a voluntary action on the part of the relief association membership and the applicable municipality. The consolidation action is initiated by a petition signed by a minimum proportion of the relief association membership (either 10 percent or 30 percent of the relief association, depending on support or opposition of the relief association to the 1987 consolidation legislation). If the petition is sufficient in the number of signatures and verified, the consolidation question is subject to a membership referendum subject to a majority vote (either a majority of those voting or a majority of all members voting or not voting).

If the referendum prevails, the governing body of the applicable city must act upon the proposed action. If the governing body grants preliminary approval, an actuarial assessment of the possible liability impact of the benefit plan coverage option is prepared. The governing body then considers final approval after receipt of the consolidation actuarial work to effect the consolidation. If the consolidation is approved on final municipal approval, the local relief association ceases to exist as a pension fund and all administrative duties relating to the local plan shift to PERA, and the State Board of Investment (SBI) invests the assets of the prior relief association.

Following the consolidation, members can retain their current benefit coverage or elect all or portions of the PERA-P&F benefit plan, as applicable given the status of the individual at the time of the consolidation. Individuals who are active members at the time of the consolidation are authorized under law to retain all rights under the local plan or to elect the PERA-P&F plan in its entirety. For individuals who at the time of the consolidation are disabilitants, deferred retirees, retirees, or survivors, the election is limited to the manner in which prospective post-retirement adjustments are calculated. For these deferred members or benefit recipients, the benefit continues as it was specified in the local plan, including any post-retirement increases paid to date. From the date of consolidation forward, the individual elects whether to continue adjustments under the provisions of the local plan or to have adjustments computed from that date forward under the system applicable to PERA-P&F. The retirees, deferred retirees, disabilitants, and survivors were given a period of time following the consolidation to make an election. If no election was made, the individual automatically retained all local plan benefits. The period of time for making this election presumably was a period of a few months. The statute authorizes PERA's board to set the length of the period following the consolidation, sufficient in length to provide adequate time to counsel the members.

Before January 1, 1999, 44 local relief associations consolidated with PERA-P&F. No local relief association has consolidated with PERA-P&F since January 1, 1999. The various relief associations with completed consolidations are as follows:

Consolidated Relief Associations

Police				Fire		
Albert Lea	Columbia Heights	Mankato	St. Louis Park	Albert Lea	Hibbing	St. Louis Park
Anoka	Crookston	New Ulm	St. Paul	Austin	Mankato	St. Paul
Austin	Crystal	Red Wing	Virginia	Chisholm	Red Wing	South St. Paul
Bloomington	Duluth	Richfield	West St. Paul	Columbia Heights	Richfield	West St. Paul
Brainerd	Faribault	Rochester	Winona	Crookston	Rochester	Winona
Buhl	Fridley	South St. Paul		Duluth	South St. Paul	
Chisholm	Hibbing	St. Cloud		Faribault	St. Cloud	

Only four police or paid fire relief associations remain freestanding in 2008. These are the Fairmont Police Relief Association, the Minneapolis Firefighters Relief Association, Minneapolis Police Relief Association, and the Virginia Fire Department Relief Association. The Fairmont Police Relief Association and the Virginia Fire Department Relief Association have no active members and the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association have only a few dozen active members.

b. Background Information on the Merger of Local Police and Paid Fire Consolidation Accounts into PERA-P&F.

1. In General. Minnesota Statutes, Section 353.665 (enacted as Laws 1999, Chapter 222, Article 3, Section 10) provided for a merger of the various local police or paid firefighter consolidation accounts into the Public Employees Police and Fire Retirement Plan (PERA-P&F). Additional provisions of Laws 1999, Chapter 222, Article 4, made conforming changes to the police state aid program, excess police state aid, and the PERA-P&F benefit plan.

2. Consolidation Account Merger Into PERA-P&F. All PERA-P&F consolidation accounts in existence as of March 1, 1999, were merged into the PERA-P&F fund on July 1, 1999. Municipalities were permitted to elect to be excluded from the merger by filing a resolution before June 15, 1999. If a municipality had more than one consolidation account, a resolution to decline merger applied to both accounts. Upon merger, consolidation account liabilities transferred to PERA-P&F and consolidation account assets (except for amounts to be distributed back to the municipality) transferred to PERA-P&F or the Minnesota Post Retirement Investment Fund, as applicable. For accounts where additional municipal contributions were necessary to cover existing liabilities (accounts with is a positive amortizable base) the amortizable base amount is added to PERA-P&F assets as a receivable. Active members of consolidation accounts were permitted to elect PERA-P&F coverage in an election before September 1, 1999. If no election is made, the individual retained the right to elect that coverage, in lieu of local plan benefit provisions, within 90 days of termination of service. Despite any prior municipal action to not extend previously enacted PERA-P&F benefit improvements to the municipality's consolidation account members, any active member electing PERA-P&F benefits receives full PERA-P&F benefits as specified in the 1998 version of PERA-P&F law. Consolidation account service pensioners, disabilitants, and survivors who previously had chosen to retain local plan post-retirement adjustments were permitted to rescind that irrevocable election and to elect PERA-P&F post-retirement adjustments. Deferred consolidation account members were permitted to elect PERA-P&F post-retirement adjustments in an election before September 1, 1999. The joint actuary computed the final funded status of each consolidation account that merged into the PERA-P&F fund. If an account was more than fully-funded, half of the assets reflecting amounts above full funding up to the June 30, 1999, PERA-P&F funding ratio and all assets reflecting amounts in excess of that PERA-P&F funding ratio were remitted to the municipality with interest, to be used by the municipality for fire or police related expenditures based on a municipal plan for the expenditure of these assets. If a municipality has more than one consolidation account and one is over-funded while the other has unfunded liabilities, 75 percent of the amounts that would otherwise be refunded to the municipality were credited to the consolidation account which has unfunded actuarial accrued liabilities. As of July 1, 1999, the employee and regular employer contribution rates for the merging consolidation accounts were the ratio applicable to PERA-P&F. If the account had unfunded liabilities at the time of merger, the amount were required to be amortized on a level-dollar basis ending December 31, 2009, with annual payments due by December 31. Unless a consolidation account member revised their benefit election as provided in this section, any prior election remained in effect. Upon the transfer of liabilities and assets, the merging consolidation accounts were terminated.

3. Conforming Changes Related to the Consolidation Account Merger. The conforming changes related to the merger of local police and paid fire consolidation accounts into PERA-P&F were:

   i. Revised Definition of Excess Police State Aid. The determination of excess police state aid was revised to conform with the voluntary merger of pre-March 1, 1999, consolidation accounts into PERA-P&F; and excess police aid for pre-July 1, 1999, consolidation accounts was defined to be aid in excess of the employer additional contribution requirement, if applicable. (Laws 1999, Ch. 222, Art. 4, Sec. 2)

ii. Revised Police State Aid Provision. The deposit-of-police-state-aid provision is revised to conform to the merger of consolidation accounts into PERA-P&F. (Laws 1999, Ch. 222, Art. 4, Sec. 3)

iii. Revised Definition of Excluded Employee. The PERA definition of excluded employee for plan membership purposes was revised to exclude only those consolidation account members who have not elected PERA-P&F coverage under the revised selection procedures. (Laws 1999, Ch. 222, Art. 4, Sec. 4)

iv. Revised Salary Definition, Conforming Changes. The PERA salary definition was revised to conform to the merger of accounts into PERA-P&F and to recognize the revised selection procedures. (Laws 1999, Ch. 222, Art. 4, Sec. 5)

v. Allowable Service Definition, Conforming Changes. The PERA allowable service definition was revised to conform to the merger of accounts into PERA-P&F and to recognize the revised selection procedures. (Laws 1999, Ch. 222, Art. 4, Sec. 6)

vi. Membership Definition Revision. The PERA-P&F membership provision was revised to exclude individuals from the merged consolidation account who have not chosen PERA-P&F benefits. (Laws 1999, Ch. 222, Art. 4, Sec. 7)

vii. Revised Employee and Employer Contribution Rates. The PERA-P&F employee contribution rate was reduced from 7.6 percent of covered salary to 6.2 percent of covered salary, and the corresponding employer contribution rate was reduced from 11.4 percent of covered salary to 9.3 percent of covered salary. (Laws 1999, Ch. 222, Art. 4, Sec. 8-9)

viii. Negative Amortization of Excess Assets. Excess assets in PERA-P&F (assets in excess of 100 percent funding ratio) will be used to reduce the PERA-P&F contribution requirements by an amount equal to the amortization of the excess expressed as a level percentage of payroll over a rolling 30-year amortization period. (Laws 1999, Ch. 222, Art. 4, Sec. 14)

ix. Revised Additional Amortization Aid Allocation, Inclusion of SPTRFA and MTRFA in Allocation. The additional amortization aid provision was revised to specify that municipalities with a continuing amortization requirement due to their previous consolidation account will continue to be eligible for additional amortization aid, revised the specification of the plans that are eligible for aid, and specified the post-October 1, 2000, allocation among participants, with 64.5 percent to go to prior consolidation accounts with remaining liabilities, 34.2 percent directed to the Minneapolis relief associations, and 1.3 percent to the Virginia Fire Department Relief Association. If aid was released or unallocated because there was no unfunded liabilities in Minneapolis relief associations or Virginia Fire, any released aid was redirected to Minneapolis Teachers Retirement Fund Association (MTRFA) (49 percent) and St. Paul Teachers Retirement Fund Association (SPTRFA) (21 percent), and the remaining 30 percent of any released aid was allocated to the minimum fire state aid floor. To be eligible for this reallocation, the Minneapolis and St. Paul teacher funds must have five-year average investment returns, beginning on July 1, 2005, that equal or exceed the return on a 10 percent cash/60 percent bond/30 percent stock indexed portfolio. (Laws 1999, Ch. 222, Art. 4, Sec. 15)

x. Clarification of Various Amortization Aid Eligibility; Aid Caps. Municipalities with prior consolidation accounts with unfunded liabilities remain eligible for additional amortization aid for the duration of the required additional contributions (December 31, 2009). The total of amortization, supplemental amortization aid, and additional amortization aid to municipalities with former consolidation accounts with remaining amounts to amortize was capped at an amount equal to their level dollar amortization requirement to PERA-P&F. Any excess was redirected back to remaining eligible consolidation accounts and if any excess continues to exist, that excess was redirected to other eligible pension funds. (Laws 1999, Ch. 222, Article 4, Sec. 16-17)

xi. Amortization Aid Termination. Amortization, supplemental amortization, and additional amortization state aid programs terminate when the MTRFA and the SPTRFA become fully funded. (Laws 1999, Ch. 222, Art. 4, Sec. 18)

Attachment C

Background Information on the Duluth Firefighters and Police Relief Associations and Consolidation Accounts

a. In General. Prior to 1980, firefighters and police officers in Duluth had retirement coverage by the local police and paid firefighters relief associations. In 1980, newly hired police officers and firefighters had retirement coverage by the statewide Public Employees Police and Fire Retirement Plan (PERA-P&F) rather than by the local relief associations and the local relief associations were placed on a phase-out basis. In 1987, local police and paid firefighter relief associations were permitted to consolidate with the Public Employees Retirement Association (PERA) and both Duluth relief associations did consolidate. In 1999, the local consolidation accounts were merged into PERA-P&F, including the Duluth consolidation accounts.

b. Duluth Firefighters Relief Association. The Duluth Firefighters Relief Association (DFRA) was established in 1887 as a nonprofit corporation under Minnesota law.

The initial law governing the benefits of or other aspects of the operation of the Duluth Firefighters Relief Association is unclear. The relief association was authorized to pay service pensions and provide relief to survivors and dependents under General Laws 1897, Chapter 55, Section 1, which was reenacted as Revised Laws 1905, Section 1655, and which was eventually codified in Minnesota Statutes, Section 69.06. The relief association was subsequently governed by the general law governing firefighter relief associations in cities of the first class, Minnesota Statutes, Sections 69.25 to 69.56 and 69.62, enacted in 1933 (Laws 1933, Chapter 177, Sections 1 to 29) and by special laws enacted in 1945, 1955, 1961, 1963, 1965, 1967, 1975, 1976, 1977, and 1994.

The Duluth Firefighters Relief Association, akin to many local relief associations at the time, was funded essentially on a current disbursements or "pay as you go" funding method until 1969, when it was compelled by statute to begin to be funded on an actuarial basis. On the eve of the relief association's conversion to a consolidation account in 1992, the following was the actuarial condition of the Duluth Firefighters Relief Association

		Duluth Firefighters Relief Association 1992
Membership		
Actives		92
Service Pensioners		96
Disabilitants		9
Surviving Spouses		55
Surviving Children		2
Deferred Members		3
Total Membership		257
Funded Condition		
Accrued Liability		$51,586,878
Assets		$20,490,535
Unfunded Accrued Liability		$31,096,343
Funded Ratio	39.7%	
Funding Requirements		
Covered Salary		$3,527,464
Benefits Payable		$2,537,335
Normal Cost	23.92%	$843,769
Administrative Expenses	2.32%	$82,004
Amortization Req. (2010)	73.59%	$2,595,807
Total Actuarial Req.	99.83%	$3,521,580
Member Contributions	8.00%	$282,197
State Aid	17.99%	$634,418
Municipal Contributions	68.91%	$2,430,836
Total Contributions	94.90%	$3,347,451

c. Duluth Fire Consolidation Account. The Duluth Firefighters Relief Association consolidated with the Public Employees Retirement Association (PERA) in 1992. Consolidation replaced the administration of the local relief association officials with the PERA administration, permitted service pensioners and other benefit recipients to elect between the local benefit plan post-retirement adjustment method, based on the pay increases granted to a first class firefighter, and the PERA-P&F post-retirement adjustment mechanism, the Minnesota Post Retirement Investment Fund, and permitted active members to elect between the full local relief association benefit plan and the PERA-P&F benefit plan.

On the eve of the merger of the consolidation account into PERA-P&F in 1999, the following was the actuarial condition of the Duluth Fire Consolidation Account as of July 1, 1998:

		Duluth Fire Consolidation Account 1998
Membership		
Actives		54
Service Pensioners		111
Disabilitants		3
Surviving Spouses		54
Surviving Children		--
Deferred Members		0
Total Membership		222
Funded Condition		
Accrued Liability		$62,316,460
Assets		$42,116,136
Unfunded Accrued Liability		$20,200,324
Funded Ratio	67.58%	
Funding Requirements		
Covered Salary		$2,845,800
Benefits Payable		$4,766,172
Normal Cost	19.00%	$540,717
Administrative Expenses	--	--
Amortization Req. (2010)	85.13%	$2,422,559
Total Actuarial Req.	104.13%	$2,963,276
Member Contributions	7.60%	$216,287
State Aid	39.15%	$1,114,177
Municipal Contributions	57.38%	$1,632,812
Total Contributions	104.13%	$2,963,276

With the passage of the 1999 Local Consolidation Account PERA-P&F Merger legislation, the city of Duluth was obligated to meet the PERA-P&F employer contribution rate for active members of the former consolidation account and to amortize the July 1, 1999, unfunded actuarial accrued liability of the consolidation account over ten years. The July 1, 1999, net amortizable base (i.e., unfunded actuarial accrued liability) for the Duluth Fire Consolidation Account was $20,526,006, and the ten-year amortization payment for that amount was $3,003,285. By July 1, 2008, for the payment due December 31, 2009, the net amortizable base is projected to be $2,883,241, requiring one final payment of $3,003,285.

d. Duluth Police Relief Association. The Duluth Police Relief Association was established in 1905 as a nonprofit corporation under Minnesota law.

The initial law governing the benefits of or other aspects of the operation of the Duluth Police Relief Association was Laws 1915, Chapter 68, which was amended in 1921, 1923, 1925, 1943, and 1949, and the 1915 law was replaced by a new relief association organization and incorporation law, Laws 1953, Chapter 91, and the enactment was amended in 1955, 1959, 1975, 1976, and 1980.

The Duluth Police Relief Association was funded similar to the Duluth Firefighters Relief Association on a current disbursements basis rather than on an actuarial basis before 1969, with some actuarial funding required on a phase-in basis in 1970 and was only being required to be funded on a full actuarial basis in 1980. On the eve of the conversion of the relief association to a consolidation account in 1987, the following was the actuarial condition of the Duluth Police Relief Association:

		Duluth Police Relief Association 1987
Membership		
Actives		102
Service Pensioners		79
Disabilitants		1
Surviving Spouses		38
Surviving Children		3
Deferred Members		1
Total Membership		224
Funded Condition		
Accrued Liability		$33,625,650
Assets		$18,489,474
Unfunded Accrued Liability		$15,136,176
Funded Ratio	54.99%	

		Duluth Police Relief Association 1987
Funding Requirements		
Covered Salary		$3,067,344
Benefits Payable		$1,463,340
Normal Cost	23.16%	$710,397
Administrative Expenses	--	--
Amortization Req. (2010)	35.70%	$1,094,996
Total Actuarial Req.	58.86%	$1,805,393
Member Contributions	8.00%	$245,388
State Aid	8.10%	$248,505
Municipal Contributions	42.76%	$1,311,500
Total Contributions	58.86%	$1,805,393

e. Duluth Police Consolidation Accounts. The Duluth Police Relief Association consolidated with the Public Employees Retirement Association (PERA) in 1987, the second relief association to do so. Consolidation replaced the administration of the local relief association officials with the PERA administration, permitted service pensioners and other benefit recipients to elect between the local benefit plan post-retirement adjustment method, based on the pay increases granted to a first class firefighter, and the PERA-P&F post-retirement adjustment mechanism, the Minnesota Post Retirement Investment Fund, and permitted active members to elect between the full local relief association benefit plan and the PERA-P&F benefit plan.

On the eve of the merger of the consolidation account into PERA-P&F in 1999, the following was the actuarial condition of the Duluth Police Consolidation Account as of July 1, 1998:

		Duluth Police Consolidation Account 1998
Membership		
Actives		35
Service Pensioners		101
Disabilitants		9
Surviving Spouses		41
Surviving Children		--
Deferred Members		3
Total Membership		189
Funded Condition		
Accrued Liability		$55,418,088
Assets		$50,210,064
Unfunded Accrued Liability		$5,208,024
Funded Ratio	90.60%	
Funding Requirements		
Covered Salary		$1,946,455
Benefits Payable		$4,047,221
Normal Cost	19.00%	$369.830
Administrative Expenses	--	--
Amortization Req. (2010)	48.38%	$941,717
Total Actuarial Req.	67.38%	$1,311,547
Member Contributions	7.60%	$147,932
State Aid	59.78%	$1,163,615
Municipal Contributions	0.00%	$0
Total Contributions	67.38%	$1,311,547

With the passage of the 1999 Local Consolidation Account PERA-P&F Merger legislation, the city of Duluth was obligated to meet the PERA-P&F employer contribution rate for active members of the former consolidation account and to amortize the July 1, 1999, unfunded actuarial accrued liability of the consolidation account over ten years. The July 1, 1999, net amortizable base (i.e., unfunded actuarial accrued liability) for the Duluth Police Consolidation Account was $5,610,532, and the ten-year amortization payment for that amount was $820,911. By July 1, 2008, for the payment due December 31, 2009, the net amortizable base is projected to be $788,102, requiring a final payment of $820,911.

Attachment D

Background Information on the Minneapolis Police Relief Association

a. Minneapolis Police Relief Association Establishment and Operation. The Minneapolis Police Relief Association was established as an organization in 1890, initially to provide relief to disabled police officers and to the families of deceased police officers. The relief association was incorporated under Minnesota law in 1905. Membership in the Minneapolis Police Relief Association was closed to newly employed police officers as of June 15, 1980, when pension coverage for new hires shifted to the statewide Public Employees Police and Fire Plan (PERA-P&F).

The Minneapolis Police Relief Association is managed by a governing board of nine members, of which seven are elected by the relief association membership and two are representatives of the city of Minneapolis. In addition to maintaining records and determining benefit amounts, the Minneapolis Police Relief Association governing board is the investment authority for the assets of the special (pension) funds of the relief association.

In calendar year 2006, the Minneapolis Police Relief Association received total contributions of $10.6 million (49.2 percent from the city and 50.8 percent from the state), received net investment income of $48.4 million, paid total retirement benefits of $34.1 million, and paid administrative expenses of $613,000 (for which the relief association provided no itemization in its annual financial report).

b. Nature of the Benefit Plan; Benefit Coverage. The Minneapolis Police Relief Association provides from its special fund a salary-related service pension to police officers retiring at age 50 or older with at least five years of service, a disability benefit to temporarily or permanently disabled police officers, a survivor benefit to the surviving family of a deceased active, retired, or disabled police officer, and a return of contributions to the estate of deceased active, retired, or disabled police officers on whose behalf no survivor benefit is payable. Pensions and benefits are based on the salary of a top-grade police officer, irrespective of the actual rank of the police officer, and these pensions and benefits increase after retirement as the salary of a top-grade police officer increases (the "escalator" post-retirement adjustment mechanism) and also increase based on the investment performance of the special fund (the "thirteenth check" post retirement adjustment). 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 1992 (Laws 1992, Chapter 471, Article 1, Section 14), the contributions by any member (eight percent of the pay of a top-grade police officer) 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 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 police officer 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. Individually and as a package, these adjustment provisions are poorly designed and can produce increases which bear no relationship to inflation, and can produce erratic changes in the benefits over time. The mechanisms are:

1. Active Salary-Related Escalator. The first post-retirement adjustment is a standard escalator tied to increases in the salary of a top-grade police officer. This escalator increases retirement benefits by the same percentage increase as the percentage increase in top-grade police officer pay negotiated between the city and the Minneapolis Police Federation.
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 thirteenth check post-retirement adjustment. The thirteenth 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 (Laws 2000, Chapter 461, Article 17). 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.

c. Actuarial and Financial Reporting. The Minneapolis Police Relief Association is required to prepare actuarial reporting under Minnesota Statutes, Sections 69.77, 356.215, 356.216, and 423B.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 are as follows:

1. 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.
2. 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. 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 police or fire state aid program, and amounts received under the local police and salaried firefighter relief associations' amortization aid programs for that year.
3. The levy required to meet the municipality's minimum obligation is outside statutory or charter levy limitations.
4. 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.
5. Investments of local associations must be in securities which are authorized investments under Minnesota Statutes, Chapter 356A.
6. 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.
7. 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.
8. All articles of incorporation or bylaw amendments affecting benefits for a local relief association must be ratified by the municipality prior to becoming effective.
9. 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 police state aid program, requires the preparation of a financial report and audit for qualification for 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.

d. Minneapolis Police Relief Association Funding Problems. Although not as poorly funded as the Minneapolis Firefighters Relief Association in the 1960s, the Minneapolis Police Relief Association was a poorly funded retirement plan historically, with a funding ratio (assets divided by accrued liability) of two percent in 1967, of almost 11 percent in 1972, and of just under 29 percent in 1982. The Minneapolis Police Relief Association was funded on a current disbursements/pay-as-you-go basis for almost a century, which greatly contributed to its general poor funding situation in the 1960s. Actuarial funding was phased in for the Minneapolis Police Relief Association in 1969 under the Local Police and Paid Fire Relief Associations Guidelines Act and the 1969 legislation caused the improved funding ratios in the 1970s. In 1980, the Minneapolis Police Relief Association was closed to new active members, a requirement to amortize the unfunded actuarial accrued liability by 2010 was added, and an amortization state aid program was created, with the Minneapolis Police Relief Association receiving about one-sixth of the $6.5 million annual aid amount.

The 1969 and 1980 actuarial funding requirements, the addition of direct state aid programs in 1980, 1984, and 1996, combined with the periodically strong investment markets since 1980, have produced consistently improving funded ratios during the period 1982 to 1999, with the Minneapolis Police Relief Association becoming 50 percent funded in 1986, 75 percent funded in 1990, and 95 percent funded in 1999. The improved funding condition of the Minneapolis Police Relief Association over the period 1982-1999 caused the employer requirement to drop from a high of $15 million in 1985 to a low of $3.5 million in 1999. Various circumstances caused erosion in the Minneapolis Police Relief Association funded ratio since 1999, with a 2005 funded ratio of 77 percent. The circumstances causing the funded ratio to erode were the cumulative effect of various benefit increases, general investment underperformance, a significant loss in the relief association's large venture capital investment in Technomar, a board-driven redefinition of the salary level on which benefits are based, and the recent investment market decline. The funded ratio erosion has caused the employer contribution requirement to increase to $32 million annually. The actuary for the Minneapolis Police Relief Association is currently recommending a strengthening of the post-retirement mortality assumption which, if approved by the Legislative Commission on Pensions and Retirement, will increase the actuarial accrued liability and unfunded actuarial accrued liability of the plan, will further reduce the plan's funded ratio, and will increase the employer contribution requirement.

Since 1969, when the Minneapolis Police Relief Association was first required to begin being funded on an actuarial basis, the Minneapolis Police Relief Association has sought and received numerous benefit increases, including a service pension and disability benefit change in 1969 (Laws 1969, Chapter 560), a medical insurance authorization in 1975 (Laws 1975, Chapter 428), the addition of a health and welfare benefit in 1980 (Laws 1980, Chapter 607, Article XV), a service pension vesting change in 1987 (Laws 1987, Chapter 372, Article 2), the addition of a second post-retirement adjustment in 1989 (Laws 1989, Chapter 319, Article 19), a survivor benefit change and the addition of a health insurance benefit in 1990 (Laws 1990, Chapter 589, Article 1), a survivor benefit change in 1993 (Laws 1993, Chapter 124), a survivor benefit change in 1994 (Laws 1994, Chapter 590), the addition of optional survivor benefit forms and a post-retirement adjustment change in 1997 (Laws 1997, Chapter 233, Article 4), and the addition of a third post-retirement adjustment in 2000 (Laws 2000, Chapter 461, Article 17). The Minneapolis City Council approved all of these benefit increases and the benefit increases increased the Minneapolis Police Relief Association actuarial accrued liability. Additionally, in 1994, without legislative action and without city approval, the Minneapolis Police Relief Association board of trustees unilaterally redefined the salary of a top-grade patrol officer, on which benefit amounts are based, to include additional compensation items (i.e., overtime pay, shift differentials, dog handler compensation, etc.). The 1994 salary redefinition produced an increase in the Minneapolis Police Relief Association actuarial accrued liability and unfunded actuarial accrued liability. The city of Minneapolis and the Minneapolis Police Relief Association again are litigating the issue of the proper determination of its covered salary figure.

During the period 1987-2004, the Minneapolis Police Relief Association also declined to consolidate with the Public Employees Police and Fire Plan (PERA-P&F) under Minnesota Statutes, Chapter 353A, as 44 other local police and paid firefighter relief associations did. The general thrust of the post-1987 benefit changes appears to have been to dissuade the Minneapolis Police Relief Association membership from pursuing a potential consolidation with PERA-P&F.

e. Recent Actuarial Valuation Results. The results of the most recent actuarial valuations for the Minneapolis Police Relief Association, 2003-2006, are as follows:

	2003		2004		2005		2006	
Membership								
Active Members		24		18		17		15
Service Retirees		689		678		664		647
Disabilitants		0		0		0		0
Survivors		246		243		240		237
Deferred Retirees		0		0		0		0
Nonvested Former Members		--		0		0		0
Total Membership		959		939		921		899
Funded Status								
Accrued Liability		$465,275,886		$455,753,045		$464,221,542		$439,991,960
Current Assets		$300,154,422		$322,278,156		$359,031,868		$377,013,110
Unfunded Accrued Liability		$165,121,464		$133,474,889		$105,189,674		$62,978,850
Funding Ratio	64.51%		70.71%		77.34%		85.69%	
Financing Requirements								
Covered Payroll		$1,860,356		$1,429,255		$1,403,932		$1,236,046
Benefits Payable		$33,194,254		$33,527,589		$33,789,746		$34,121,401
Normal Cost	19.78%	$367,974	18.50%	$264,361	17.93%	$251,725	16.87%	$208,556
Administrative Expenses	0.00%	--	0.00%	--	0.00%	--	0.00%	--
Normal Cost & Expense	19.78%	$367,974	18.50%	$264,361	17.93%	$251,725	16.87%	$208,556

	2003		2004		2005		2006	
Normal Cost & Expense	19.78%	$367,974	18.50%	$264,361	17.93%	$251,725	16.87%	$208,556
Amortization	1702.84%	$31,678,807	2091.50%	$29,892,885	760.45%	$10,676,247	542.97%	$6,711,413
Total Requirements	1722.62%	$32,046,781	2110.00%	$30,157,246	778.38%	$10,927,972	559.85%	$6,919,969
Employee Contributions	8.00%	$148,828	0.00%	$0	0.00%	$0	0.00%	$0
Employer Contributions	1714.62%	$31,897,953	1951.33%	$27,889,552	1779.06%	$24,976,747	434.14%	$5,366,224
Employer Add'l Cont.	--	--	--	--	--	--	2.05%	25,281
Direct State Funding	--	--	--	--	468.23%	6,573,582	420.74%	5,200,521
Other Govt. Funding	--	--	--	--	--	--	9.92%	122,644
Administrative Assessment	--	--	--	--	--	--	--	--
Total Contributions	1722.62%	$32,046,781	1951.33%	$27,889,552	2247.28%	$31,550,329	866.85%	$10,714,670
Total Requirements	1722.62%	$32,046,781	2110.00%	$30,157,246	778.38%	$10,927,972	559.85%	$6,919,969
Total Contributions	1722.62%	$32,046,781	1951.33%	$27,889,552	2247.28%	$31,550,329	866.85%	$10,714,670
Deficiency (Surplus)	0.00%	$0	158.67%	$2,267,694	(1468.90%)	($20,622,357)	(307.00%)	($3,794,701)
Amortization Target Date	2010		2010		2010		2010	
Actuary	Van Iwaarden		Van Iwaarden		Van Iwaarden		Van Iwaarden	

Attachment E

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).

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 2006, the Minneapolis Firefighters Relief Association received total contributions of almost $2.6 million (47.5 percent from the State of Minnesota and 52.5 percent from the city of Minneapolis), received net investment income slightly more than $30.2 million, paid total retirement benefits of $21.4 million, and paid administrative expenses slightly under $600,000 (28 percent for personnel, 50 percent for professional services, and 22 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 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. Individually and as a package, these adjustment provisions are poorly designed and can produce increases which bear no relationship to inflation, and can produce erratic changes in the benefits over time. The mechanisms 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. 13th 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 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 are as follows:

1. 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.
2. 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. 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 police or fire state aid program, and amounts received under the local police and salaried firefighter relief associations amortization aid programs for that year.
3. The levy required to meet the municipality's minimum obligation is outside statutory or charter levy limitations.
4. 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.
5. Investments of local associations must be in securities which are authorized investments under Minnesota Statutes, Chapter 356A.
6. 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.
7. 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.
8. All articles of incorporation or bylaw amendments affecting benefits for a local relief association must be ratified by the municipality prior to becoming effective.
9. 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 police state aid program, requires the preparation of a financial report and audit for qualification for 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.

d. Recent Actuarial Valuation Results. The results of the most recent actuarial valuations for the Minneapolis Firefighters Relief Association, 2003-2006, are as follows:

	2003	2004	2005	2006
Membership				
Active Members	58	42	37	31
Service Retirees	439	438	385	374
Disabilitants	8	6	50	51
Survivors	183	177	166	167
Deferred Retirees	2	0	0	0
Nonvested Former Members	--	--	--	0
Total Membership	690	663	638	623
Funded Status				
Accrued Liability	$293,955,306	$275,513,196	$312,563,011	$300,925,513
Current Assets	$236,990,860	$248,545,796	$269,425,963	$263,275,562
Unfunded Accrued Liability	$56,964,446	$26,967,400	$43,137,048	$37,649,951
Funding Ratio	80.62%	90.21%	86.20%	87.49%

	2003		2004		2005		2006	
Financing Requirements								
Covered Payroll		$4,396,958		$3,141,585		$2,821,419		$2,489,368
Benefits Payable				$20,598,079		$23,543,793		$21,440,705
Normal Cost	21.44%	$906,523	21.07%	$636,326	23.22%	$655,070	21.97%	$547,006
Administrative Expenses	0.00%	--	0.00%	--	0.00%	--	0.00%	--
Normal Cost & Expense	21.44%	$906,523	21.07%	$636,326	23.22%	$655,070	21.97%	$547,006
Normal Cost & Expense	21.44%	$906,523	21.07%	$636,326	23.22%	$655,070	21.97%	$547,006
Amortization	125.02%	$5,533,223	71.82%	$2,256,188	138.86%	$3,917,905	168.53%	$4,195,292
Total Requirements	146.46%	$6,439,746	92.89%	$2,892,514	162.08%	$4,572,975	190.50%	$4,742,298
Employee Contributions	3.10%	$136,209	1.27%	$39,852	0.43%	$12,010	--	--
Employer Contributions	30.32%	$1,333,171	68.42%	$2,149,604	235.75%	$6,651,656	102.88%	$2,561,180
Employer Add'l Cont.	--	--	--	--	--	--	--	--
Direct State Funding	--	--	--	--	--	--	--	--
Other Govt. Funding	--	--	--	--	--	--	--	--
Administrative Assessment	--	--	--	--	--	--	--	--
Total Contributions	33.42%	$1,469,380	69.69%	$2,189,456	236.18%	$6,663,666	102.88%	$2,561,180
Total Requirements	146.46%	$6,439,746	92.89%	$2,892,514	162.08%	$4,572,975	190.50%	$4,742,298
Total Contributions	33.42%	$1,469,380	69.69%	$2,189,456	236.18%	$6,663,666	102.88%	$2,561,180
Deficiency (Surplus)	113.04%	$4,970,366	23.20%	$703,058	(74.09%)	($2,090,691)	87.62%	$2,181,118
Amortization Target Date	2017		2020		2021		2021	
Actuary	Van Iwaarden		Van Iwaarden		Van Iwaarden		Van Iwaarden	

Attachment F

Background Information on the Minimum Volunteer Firefighter State Aid Program

Minnesota Statutes, Sections 69.021, Subdivision 7, and 423A.02, were amended, by Laws 1996, Chapter 438, Article 4, Sections 2 and 11, to implement a minimum fire state aid floor for volunteer firefighter relief associations that currently receive a disproportionately small amount of fire state aid on a per active member (1993 count) basis. The state aid floor is funded from sources other than the insurance premium tax structure. Thirty percent of any unallocated amortization or supplemental amortization state aid (caused by payment of a 13th check by the Minneapolis Police or Minneapolis Fire Relief Associations, or by a police or paid fire relief association or consolidation account reaching full funding) is to be used to establish a minimum fire state aid amount for volunteer fire relief associations. The aid is to be allocated to the relief associations so that all municipalities or fire departments with volunteer firefighter relief associations receive in total at least a minimum fire state aid amount per 1993 active volunteer firefighter, based on a maximum of 30 firefighters. The amount of the minimum fire state aid is a function of the amount of the funding made available through the two amortization programs.

The minimum fire state aid floor was an effort to address a longstanding concern that the fire state aid program without a minimum aid amount provided unreasonably low aid amounts per firefighter before 1996. After the 1996 legislation was enacted the aid per eligible firefighter increased to slightly over $260 per firefighter.

To address the inadequate funding to the many jurisdictions receiving minimal amounts of state fire tax aid, the minimum aid program tapped another funding source and directed the additional aid to those recipients receiving the least aid per firefighter. The funding source was the unallocated aid in the police and paid fire amortization and supplemental amortization aid programs. The amortization aid programs were established in 1980 and 1984 to provide additional funding to police and paid fire relief associations which were closed to new members. Amortization aid is not paid to the Minneapolis police or fire relief associations if those associations pay a thirteenth check, and the amortization aids also are terminated for any relief association or consolidation account which become fully funded. Due to these events, some of the appropriation set aside for amortization and supplemental amortization aids is not allocated. Under the 1996 legislation, 70 percent of this unallocated amortization aid is reallocated to the Minneapolis Teachers Retirement Fund Association (MTRFA) and the St. Paul Teachers Retirement Fund Association (SPTRFA), and 30 percent is allocated to the minimum floor fire state aid program. The revenue that is allocated to the minimum floor fire state aid program is targeted to volunteer fire relief associations which receive low aid per firefighter under the state fire tax aid program. The firefighter count used in the allocation procedure is the number of firefighters, not to exceed thirty, in each relief association in 1993.

The revenue allocated to the minimum floor fire state aid program is targeted to volunteer fire relief associations which receive low aid per firefighter under the state fire tax aid program. The firefighter count used in the allocation procedure initially was the number of firefighters, not to exceed 30, in each relief association in calendar year 1993. The minimum floor fire state aid program brings the funding for those associations receiving the least aid per firefighter up to a higher, uniform level. In 1999 (Laws 1999, Chapter 222, Article 5, Section 1), for volunteer firefighter relief associations that were not in existence in 1993, the membership count for calendar year 1998, but not to exceed 30 firefighters, is to be used in calculating the minimum fire state aid.

The determined minimum fire state aid floor amount in 1996 was $264.52 per active firefighter as reported to the Office of the State Auditor as of December 31, 1993, but not to exceed 30 firefighters. In the 1996 fire state aid allocation, 324 municipalities with volunteer firefighter relief associations received fire state aid under the minimum fire state aid floor provision, while 365 municipalities with volunteer firefighter relief associations received fire state aid solely under the prior geographical-based formula (relative proportion of population and property value) that was enacted in 1969. Since 1996, the minimum per firefighter fire state aid amount has changed, since it is a function of the amount of reallocated amortization state aids available, the extent of the relative population and property value changes occurring over time, and the number of firefighters in the volunteer firefighter relief associations receiving the smallest amounts of fire state aid. The floor fire state aid amount over time is as follows:

Year	Floor Amount Per Firefighter	Year	Floor Amount Per Firefighter	Year	Floor Amount Per Firefighter
1996	$264.52	2000	$329.32	2004	$374.39
1997	262.22	2001	326.60	2005	365.71
1998	313.13	2002	281.80	2006	387.00
1999	321.26	2003	319.22	2007	417.10

The minimum fire state aid portion of the fire state aid program had a dramatic impact on the smaller volunteer firefighter relief associations and on the relief associations previously receiving the smallest amount of fire state aid per firefighter. In 1996, with the minimum fire state aid, the median amount of fire state aid was $7,142.04, and would have been $6,351.00 without the minimum fire state aid, with the minimum fire state aid, only one volunteer firefighter relief association received fire state aid less than $200 per firefighter, while 230 volunteer firefighter relief associations, or 33.38 percent of the total number, would have received fire state aid less than $200 per firefighter without the minimum fire state aid, and did not benefit any volunteer firefighter relief associations in nine counties (Benton, Dodge, Goodhue, Kanabec, Ramsey, Rice, Scott, Sherburne, and Wright), but benefited 111 volunteer firefighter relief associations in the nine counties with the most affected relief associations (St. Louis with 42, Itasca with 10, Redwood with 10, Carleton with 9, Douglas with 9, Ottertail with 9, Faribault with 7, and Carver with 7).

Attachment G

Background Information on the on the Establishment and Operation of the St. Paul Teachers Retirement Fund Association

The St. Paul Teachers Retirement Fund Association (SPTRFA) was created in 1910 under the authority of Laws 1909, Chapter 343, by the teaching body of the St. Paul public schools with the consent of the St. Paul City Council and was incorporated as a Minnesota corporation in 1910. The plan primarily covers certificated teaching and administrative personnel employed by Independent School District No. 625, St. Paul, but also includes some faculty members employed by the Minnesota State Colleges and Universities System (MnSCU). Teachers who were employed by charter schools that were located in St. Paul previously were members of SPTRFA, but coverage for them was transferred to the statewide Teachers Retirement Association (TRA) in 2002.

Initially, in 1910, membership in the SPTRFA was voluntary and the initial pensions, first paid in 1910, were \$30 per month and were funded from a 1.0 percent member contribution and a contribution from the city of St. Paul, subject to a maximum levy. The flat retirement benefit amount was increased to \$40 per month in 1913 and to \$50 in 1922. The funding of the SPTRFA before 1955 was essentially on a "current disbursements" or "pay-as-you-go" basis, with the total of the member contributions and the city of St. Paul tax levy generally equaling the retirement benefit payout (i.e. in 1952, the member contribution of \$223,891 and the tax levy of \$289,861 largely was consumed by the annuities payable of \$508,923; in 1953, the respective amounts were \$233,391; \$312,433; and \$525,959; and in 1954, \$243,181; \$334,245; and \$529,429).

In 1955, unrelated to any legislative mandate, the SPTRFA member contribution rate was increased from 4.5 percent of covered pay to 6.0 percent of covered pay and the city of St. Paul essentially doubled its local tax levy, from \$334,245 in 1954 to \$687,000 in 1955. This resulted in SPTRFA beginning to amass reserves for its actuarial liabilities, totaling \$1.6 million in assets in 1955. Also in 1955, SPTRFA first retained a consulting actuary, A. A. Weinberg of Chicago, Illinois, who also was the State Employees Retirement Association (SERA, predecessor to the Minnesota State Retirement System (MSRS)) consulting actuary. The applicable tax levy limit for SPTRFA and the other two first class city teacher retirement fund associations was set in 1923 and remained unchanged until 1969, when the levy limit was eliminated following the 1967 inclusion of the first class city teacher retirement fund associations in direct state payment of teacher employer retirement contributions.

In 1975, the local levy for SPTRFA was eliminated and the state funding of the plan, set identical as a percentage of covered payroll to the statewide Teachers Retirement Association (TRA), was set as the total employer support of the plan.

SPTRFA coordinated with Social Security in 1978, effectively closing the SPTRFA Basic Plan to new members. Each existing teacher elected to either remain as a basic member or to begin Social Security coverage (which makes them coordinated members). The current SPTRFA Basic Plan covers the pre-1978 hires who did not elect Social Security coverage. A SPTRFA Coordinated Program was created for all post-1978 hires and for those pre-1978 hires who elected Social Security coverage. Because there have been no new basic members added to the SPTRFA since 1978, not many St. Paul teachers remain as Basic Program active members. As of June 30, 2007, the 153 SPTRFA Basic Program active members made up 3.8 percent of the total SPTRFA active membership, while the 1,835 SPTRFA Basic Program retired members comprised 75.5 percent of the total number of SPTRFA service retiree membership.

The SPTRFA substantially replicated the statewide TRA Coordinated Program benefit plan. In 1983, member contributions to SPTRFA were tax sheltered for federal and state income tax purposes and the plan was determined as tax qualified by the federal Internal Revenue Service. In 1987, the prior direct state funding to SPTRFA was folded into the general education state aid to the school district. Retirement benefits were improved by the addition of a two-tier benefit package, effective in 1989 (Laws 1989, Chapter 319, Article 13), for both Basic and Coordinated Plan members. Coordinated members first hired before July 1, 1989, are eligible for Tier I or Tier II benefits. Members first hired after June 30, 1989, are eligible for Tier II benefits only. Tier I is the "Rule of 90" early normal retirement age benefit program, with a modestly smaller retirement annuity formula for the initial ten years of service credit. Tier II is the "level benefit" later normal retirement age benefit program, with a higher benefit accrual rate for all years of service credit. In 1997 (Laws 1997, Chapter 233, Article 3), legislation improved first class city teacher retirement fund association Coordinated Program benefits, implement a new method of paying a post-retirement increase, and provided additional state, employer, and employee funding. Also in 1997, as part of major benefit increase legislation, additional special direct state aid to SPTRFA was enacted and, with the direct state aid enacted in 1996, currently totals $4.5 million annually, or 11.9 percent of the total SPTRFA contributions in 2007.

The SPTRFA is managed by a governing board of ten members, one member of the Board of Education of Independent School District No. 625, as designated by the board, and nine elected members. In addition to maintaining member records and determining benefit amounts, the SPTRFA governing board is the investment authority for the assets of the retirement fund. The SPTRFA administrative staff consists of six employees, an executive director, an assistant director, a benefits and technology specialist, an accountant, a member records and accounting clerk, and an information clerk. Until recently, the board member who was the Secretary/Treasurer also functioned as the chief administrative officer for the plan. The plan retains several professional services providers, including legal counsel, an actuarial consulting firm in addition to the consulting actuary retained jointly by the seven major retirement plan administrators, the Office of the State Auditor, one investment consultant, and 15 investment counsels.

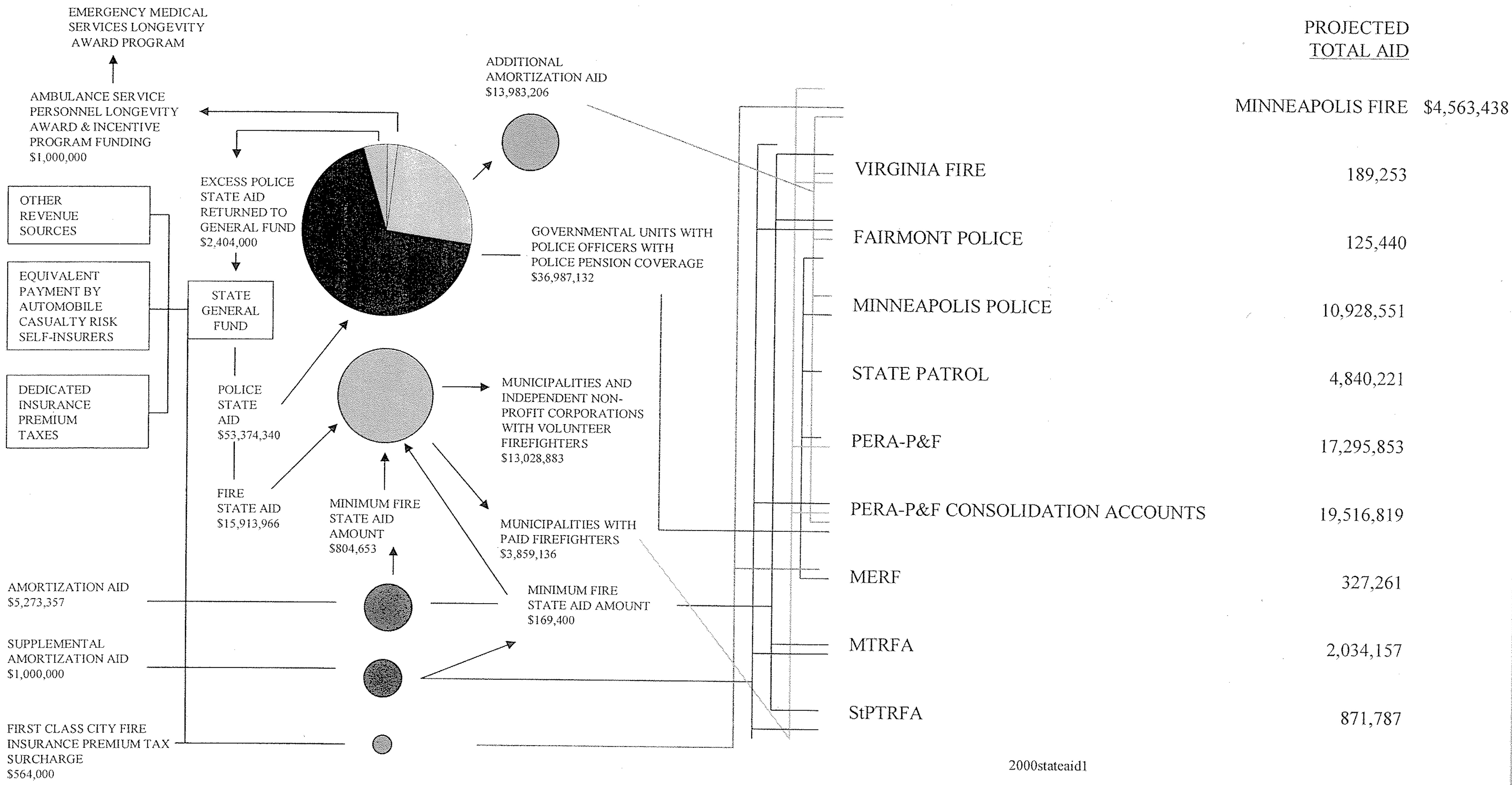
The 2006 SPTRFA annual financial report indicates that the plan received total contributions of $37.5 million over Fiscal Year 2006 (55.0 percent from the school district, 35.9 percent from the active members, and 9.1 percent from the State of Minnesota), had investment income, including unrealized gains, after investment expenses of $4.6 million and security lending expenses of $4.0 million, of $113.8 million (99.8 percent from the investment program and 0.2 percent from the securities lending program), paid benefits and refunds totaling $79.6 million (88.8 percent retirement annuities, 1.1 percent disability benefits, 8.6 percent survivor benefits, and 1.4 percent refunds), and paid plan administration expenses of $0.6 million.

The actuarial valuation results for the St. Paul Teachers Retirement Fund Association (SPTRFA) indicate the following for the past four plan years:

	2004		2005		2006		2007	
Membership								
Active Members		4,441		4,355		4,219		3,999
Service Retirees		2,078		2,208		2,302		2,413
Disabilitants		28		32		25		24
Survivors		249		259		280		284
Deferred Retirees		1,261		1,368		1,447		1,693
Nonvested Former Members		1,664		1,687		1,671		1,538
Total Membership		9,721		9,909		9,944		9,951
Funded Status								
Accrued Liability		$1,251,460,084		$1,299,831,584		$1,358,619,906		$1,391,297,918
Current Assets		$898,859,732		$905,292,514		$938,919,005		$1,015,722,034
Unfunded Accrued Liability		$352,600,352		$394,539,070		$419,700,901		$375,575,884
Funding Ratio	71.82%		69.65%		69.11%		73.01%	
Financing Requirements								
Covered Payroll		$230,777,730		$227,818,794		$234,213,344		$233,099,133
Benefits Payable		$67,941,921		$72,438,204		$78,420,222		$82,809,201
Normal Cost	9.31%	$21,479,177	9.23%	$21,035,503	9.21%	$21,575,645	9.05%	$21,099,816
Administrative Expenses	0.24%	$553,867	0.24%	$546,765	0.26%	$608,955	0.30%	$699,297
Normal Cost & Expense	9.55%	$22,033,044	9.47%	$21,582,268	9.47%	$22,184,600	9.35%	$21,799,113
Normal Cost & Expense	9.55%	$22,033,044	9.47%	$21,582,268	9.47%	$22,184,600	9.35%	$21,799,113
Amortization	12.05%	$27,808,716	14.30%	$32,578,088	15.55%	$36,420,175	14.75%	$34,382,122
Total Requirements	21.60%	$49,841,760	23.77%	$54,160,356	25.02%	$58,604,775	24.10%	$56,181,235
Employee Contributions	5.80%	$13,393,204	5.73%	$13,059,350	5.69%	$13,319,540	5.64%	$13,139,595
Employer Contributions	8.74%	$20,171,429	8.65%	$19,698,785	8.59%	$20,111,296	8.52%	$19,861,736
Employer Add'l Cont.	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Direct State Funding	2.08%	$4,803,000	2.11%	$4,803,000	2.05%	$4,803,000	1.91%	$4,451,216
Other Govt. Funding	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	
Administrative Assessment	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Total Contributions	16.63%	$38,367,633	16.49%	$37,561,135	16.32%	$38,233,836	16.07%	$37,452,547
Total Requirements	21.60%	$49,841,760	23.77%	$54,160,356	25.02%	$58,604,775	24.10%	$56,181,235
Total Contributions	16.63%	$38,367,633	16.49%	$37,561,135	16.32%	$38,233,836	16.07%	$37,452,547
Deficiency (Surplus)	4.97%	$11,474,127	7.29%	$16,599,221	8.70%	$20,370,939	8.03%	$18,728,688
Amortization Target Date	2021		2021		2021		2021	
Actuary	Segal		Segal		Segal		Segal	

Attachment H

FLOW CHART: REVISED PROJECTION OF 2000 STATE AID FOR POLICE AND PAID FIRE PENSION PROGRAMS



.... moves to amend H.F. No. 3744; S.F. No. 3532, as follows:

Page 2, line 18, before "If" insert "(d) In the years following the final payment to the municipalities required by section 353.665, subdivision 8, paragraph (b), or 353A.09, subdivision 5, paragraph (b), the commissioner shall allocate the aid amount under paragraph (c), clause (1), as follows: 25 percent to the St. Paul Teachers Retirement Fund Association, 25 percent to the city of Minneapolis to fund any unfunded actuarial accrued liability in the actuarial valuation proposed under sections 356.215 and 356.216 as of the preceding December 31 for the Minneapolis Police Relief Association or the Minneapolis Fire Fighters Relief Association, 25 percent to the city of Duluth to pay for any costs associated with the police and firefighters relief associations, and 25 percent as additional funding to support minimum fire state aid for volunteer firefighters relief associations."

Page 2, line 21, strike "that 34.2 percent of" and after "aid" insert "under paragraph (c), clause (2), "

Page 2, line 27, strike "that 1.3 percent of" and after "aid" insert "under paragraph (c), clause (3), "

Page 2, line 30, to page 3, line 3, delete the new language

Page 3, line 13, strike "(d)" and insert "(e)"

.... moves to amend H.F. No. 3744; S.F. No. 3532, as follows:

Page 2, line 18, before "If" insert "(d) In the years following the final payment to the municipalities required by section 353.665, subdivision 8, paragraph (b), or 353A.09, subdivision 5, paragraph (b), the commissioner shall allocate the aid amount under paragraph (c), clause (1), as follows: 33.333 percent to the St. Paul Teachers Retirement Fund Association, 33.333 percent as additional funding to support minimum fire state aid for volunteer firefighters relief associations, and 33.333 percent to the Teachers Retirement Fund Association to fund any unfunded actuarial accrued liability attributable to the consolidated former Minneapolis Teachers Retirement Fund Association."

Page 2, line 21, strike "that 34.2 percent of" and after "aid" insert "under paragraph (c), clause (2), "

Page 2, line 27, strike "that 1.3 percent of" and after "aid" insert "under paragraph (c), clause (3), "

Page 2, line 30, to page 3, line 3, delete the new language

Page 3, line 13, strike "(d)" and insert "(e)"

.... moves to amend H.F. No. 3744; S.F. No. 3532, as follows:

Page 2, line 18, before "If" insert "(d) In the years following the final payment to the municipalities required by section 353.665, subdivision 8, paragraph (b), or 353A.09, subdivision 5, paragraph (b), the commissioner shall allocate the aid amount under paragraph (c), clause (1), as follows: 20 percent to the Teachers Retirement Fund Association to fund any unfunded actuarial accrued liability attributable to the consolidated former Minneapolis Teachers Retirement Fund Association, 20 percent to the St. Paul Teachers Retirement Fund Association, 20 percent to the city of Minneapolis to fund any unfunded actuarial accrued liability in the actuarial valuation proposed under sections 356.215 and 356.216 as of the preceding December 31 for the Minneapolis Police Relief Association or the Minneapolis Fire Fighters Relief Association, 20 percent to the city of Duluth to pay for any costs associated with the police and firefighters relief associations, and 20 percent as additional funding to support minimum fire state aid for volunteer firefighters relief associations."

Page 2, line 21, strike "that 34.2 percent of" and after "aid" insert "under paragraph (c), clause (2), "

Page 2, line 27, strike "that 1.3 percent of" and after "aid" insert "under paragraph (c), clause (3), "

Page 2, line 30, to page 3, line 3, delete the new language

Page 3, line 13, strike "(d)" and insert "(e)"

.... moves to amend H.F. No. 3744; S.F. No. 3532, as follows:

Page 2, line 33, delete "25" and insert "..." and delete "25" and insert "..."

Page 3, lines 1 and 2, delete "25" and insert "..."

.... moves to amend H.F. No. 3744; S.F. No. 3532, as follows:

Page 1, after line 5, insert:

"Section 1. Minnesota Statutes 2006, section 356.216, is amended to read:

356.216 CONTENTS OF ACTUARIAL VALUATIONS FOR LOCAL POLICE AND FIRE FUNDS.

(a) The provisions of section 356.215 that govern the contents of actuarial valuations must apply to any local police or fire pension fund or relief association required to make an actuarial report under this section, except as follows:

(1) in calculating normal cost and other requirements, if required to be expressed as a level percentage of covered payroll, the salaries used in computing covered payroll must be the maximum rate of salary on which retirement and survivorship credits and amounts of benefits are determined and from which any member contributions are calculated and deducted;

(2) in lieu of the amortization date specified in section 356.215, subdivision 11, the appropriate amortization target date specified in section 69.77, subdivision 4, or 69.773, subdivision 4, clause (c), must be used in calculating any required amortization contribution, except that if the actuarial report for the Bloomington Fire Department Relief Association indicates an unfunded actuarial accrued liability, the unfunded obligation is to be amortized on a level dollar basis by December 31 of the year occurring 20 years later, and if subsequent actuarial valuations for the Bloomington Fire Department Relief Association determine a net actuarial experience loss incurred during the year which ended as of the day before the most recent actuarial valuation date, any unfunded liability due to that loss is to be amortized on a level dollar basis by December 31 of the year occurring 20 years later and except that the amortization date for the Minneapolis Police Relief Association is December 31, 2020;

(3) in addition to the tabulation of active members and annuitants provided for in section 356.215, subdivision 13, the member contributions for active members for the

calendar year and the prospective annual retirement annuities under the benefit plan for active members must be reported;

(4) actuarial valuations required under section 69.773, subdivision 2, must be made at least every four years and actuarial valuations required under section 69.77 shall be made annually;

(5) the actuarial balance sheet showing accrued assets valued at market value if the actuarial valuation is required to be prepared at least every four years or valued as current assets under section 356.215, subdivision 1, clause (6), or paragraph (b), whichever applies, if the actuarial valuation is required to be prepared annually, actuarial accrued liabilities, and the unfunded actuarial accrued liability must include the following required reserves:

(i) for active members:

1. retirement benefits;

2. disability benefits;

3. refund liability due to death or withdrawal;

4. survivors' benefits;

(ii) for deferred annuitants' benefits;

(iii) for former members without vested rights;

(iv) for annuitants;

1. retirement annuities;

2. disability annuities;

3. surviving spouses' annuities;

4. surviving children's annuities;

In addition to those required reserves, separate items must be shown for additional benefits, if any, which may not be appropriately included in the reserves listed above; and

(6) actuarial valuations are due by the first day of the seventh month after the end of the fiscal year which the actuarial valuation covers.

(b) For the Minneapolis Firefighters Relief Association or the Minneapolis Police Relief Association, the following provisions additionally apply:

(1) in calculating the actuarial balance sheet, unfunded actuarial accrued liability, and amortization contribution of the relief association, "current assets" means the value of all assets at cost, including realized capital gains and losses, plus or minus, whichever applies, the average value of total unrealized capital gains or losses for the most recent three-year period ending with the end of the plan year immediately preceding the actuarial valuation report transmission date; ~~and~~

(2) in calculating the applicable portions of the actuarial valuation, an annual preretirement interest assumption of six percent, an annual postretirement interest assumption of six percent, and an annual salary increase assumption of four percent must be used~~.~~; and

(3) in disclosing the actuarial assumptions of the relief association, the actuarial valuation must indicate the applicable required amortization date used in calculating the amortization contribution requirement included in the annual financial requirements of the relief association, the statutory citation on which that amortization date was determined, and, if the amortization date is based on any calculations, a summary of those calculations."

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

.... moves to amend H.F. No. 3744; S.F. No. 3532, as follows:

Page 3, after line 14, insert:

"Sec. 2. Minnesota Statutes 2006, section 423B.21, subdivision 2, is amended to read:

Subd. 2. **Data; Limitation.** (a) The actuarial valuation of the relief association must include the average age and the average remaining lifetime under the applicable mortality table for each membership group and for the relief association membership in total.

(b) Notwithstanding subdivision 1, the amortization period may not exceed the average life expectancy of the remaining members.

Sec. 3. Minnesota Statutes 2006, section 423C.15, subdivision 4, is amended to read:

Subd. 4. **Data; Limitation.** (a) The actuarial valuation of the relief association must include the average age and the average remaining lifetime under the applicable mortality table for each membership group and for the relief association membership in total.

(b) Notwithstanding subdivision 3, the amortization period may not exceed the average life expectancy of the remaining members."

Amend the title accordingly

.... moves to amend H.F. No. 3744; S.F. No. 3532, as follows:

Page 2, line 18, before "If" insert "(d) "

Page 3, after line 12, insert

"(e) In the years following the final payment to the city of Minneapolis under paragraph (d), the commissioner shall allocate the aid amount attributable to the city of Minneapolis as follows: 33.333 percent to the St. Paul Teachers Retirement Fund Association; 33.333 percent to the Teachers Retirement Fund Association as successor of the former Minneapolis Teachers Retirement Fund Association; and 33.333 percent as additional funding to support minimum fire state aid for volunteer firefighters relief associations."

Page 3, line 13, strike "(d)" and insert "(f)"

.... moves to amend H.F. No. 3744; S.F. No. 3532, as follows:

Page 3, line 3, after "associations. " insert "After December 31, ..., the commissioner shall allocate the state aid amount otherwise attributable to the city of Duluth as follows: 33.333 percent to the St. Paul Teachers Retirement Fund Association; 33.333 percent to the Teachers Retirement Fund Association as successor of the former Minneapolis Teachers Retirement Fund Association; and 33.333 percent as additional funding to support minimum fire state aid for volunteer firefighters relief associations. "

.... moves to amend H.F. No. 3744; S.F. No. 3532, as follows:

Page 3, line 3, after "associations. " insert "Once the total redirected aid paid to the city of Duluth under this subdivision totals $............, the commissioner shall allocate the state aid amount otherwise payable to the city of Duluth as follows: 33.333 percent to the St. Paul Teachers Retirement Fund Association; 33.333 percent to the Teachers Retirement Fund Association as successor of the former Minneapolis Teachers Retirement Fund Association; and 33.333 percent as additional funding to support minimum fire state aid for volunteer firefighters relief associations. "

.... moves to amend H.F. No. 3744; S.F. No. 3532, as follows:

Page 3, after line 14, insert:

"Sec. 2. **AID PROGRAM SUNSET; REPEALER.**

Minnesota Statutes 2006, section 423A.02, subdivisions 1, 1a, 1b, 2, and 4, are repealed effective December 31, ...

Minnesota Statutes 2007 Supplement, section 423A.02, subdivisions 3 and 5, are repealed effective December 31, ..."

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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-FIFTH SESSION

HOUSE FILE NO. 3744

March 4, 2008
Authored by Thissen and Murphy, M.
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; amending local police and firefighters relief association amortization provisions; allocating state aid; amending Minnesota Statutes 2006, section 423A.02, subdivision 1b.

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

Section 1. Minnesota Statutes 2006, section 423A.02, subdivision 1b, is amended to read:

Subd. 1b. **Additional amortization state aid.** (a) Annually, on October 1, the commissioner of revenue shall allocate the additional amortization state aid transferred under section 69.021, subdivision 11, to:

(1) all police or salaried firefighters relief associations governed by and in full compliance with the requirements of section 69.77, that had an unfunded actuarial accrued liability in the actuarial valuation prepared under sections 356.215 and 356.216 as of the preceding December 31;

(2) all local police or salaried firefighter consolidation accounts governed by chapter 353A that are certified by the executive director of the public employees retirement association as having for the current fiscal year an additional municipal contribution amount under section 353A.09, subdivision 5, paragraph (b), and that have implemented section 353A.083, subdivision 1, if the effective date of the consolidation preceded May 24, 1993, and that have implemented section 353A.083, subdivision 2, if the effective date of the consolidation preceded June 1, 1995; and

(3) the municipalities that are required to make an additional municipal contribution under section 353.665, subdivision 8, for the duration of the required additional contribution.

(b) The commissioner shall allocate the state aid on the basis of the proportional share of the relief association or consolidation account of the total unfunded actuarial accrued liability of all recipient relief associations and consolidation accounts as of December 31, 1993, for relief associations, and as of June 30, 1994, for consolidation accounts.

(c) Beginning October 1, 2000, and annually thereafter, the commissioner shall allocate the state aid, including any state aid in excess of the limitation in subdivision 4, on the following basis:

(1) 64.5 percent to the municipalities to which section 353.665, subdivision 8, paragraph (b), or 353A.09, subdivision 5, paragraph (b), apply for distribution in accordance with paragraph (b) and subject to the limitation in subdivision 4;

(2) 34.2 percent to the city of Minneapolis to fund any unfunded actuarial accrued liability in the actuarial valuation prepared under sections 356.215 and 356.216 as of the preceding December 31 for the Minneapolis Police Relief Association or the Minneapolis Fire Department Relief Association; and

(3) 1.3 percent to the city of Virginia to fund any unfunded actuarial accrued liability in the actuarial valuation prepared under sections 356.215 and 356.216 as of the preceding December 31 for the Virginia Fire Department Relief Association.

If there is no unfunded actuarial accrued liability in both the Minneapolis Police Relief Association and the Minneapolis Fire Department Relief Association as disclosed in the most recent actuarial valuations for the relief associations prepared under sections 356.215 and 356.216, the commissioner shall allocate that 34.2 percent of the aid as follows: 49 percent to the Teachers Retirement Association, 21 percent to the St. Paul Teachers Retirement Fund Association, and 30 percent as additional funding to support minimum fire state aid for volunteer firefighters relief associations. If there is no unfunded actuarial accrued liability in the Virginia Fire Department Relief Association as disclosed in the most recent actuarial valuation for the relief association prepared under sections 356.215 and 356.216, the commissioner shall allocate that 1.3 percent of the aid as follows: 49 percent to the Teachers Retirement Association, 21 percent to the St. Paul Teachers Retirement Fund Association, and 30 percent as additional funding to support minimum fire state aid for volunteer firefighters relief associations. Upon the final payment to municipalities required by section 353.665, subdivision 8, paragraph (b), or 353A.09, subdivision 5, paragraph (b), the commissioner shall allocate that 64.5 percent of the aid as follows: 25 percent to the St. Paul Teachers Retirement Fund Association, 25 percent to the city of Minneapolis to fund any unfunded actuarial accrued liability in the actuarial valuation proposed under sections 356.215 and 356.216 as of the preceding December 31 for the Minneapolis Police Relief Association or the Minneapolis Fire Fighters Relief

<u>Association, 25 percent for the city of Duluth to pay for any costs associated with the police and firefighters relief associations, and 25 percent as additional funding to support minimum fire state aid for volunteer firefighters relief associations.</u> The allocation must be made by the commissioner at the same time and under the same procedures as specified in subdivision 3. With respect to the St. Paul Teachers Retirement Fund Association, annually, beginning on July 1, 2005, if the applicable teacher's association five-year average time-weighted rate of investment return does not equal or exceed the performance of a composite portfolio assumed passively managed (indexed) invested ten percent in cash equivalents, 60 percent in bonds and similar debt securities, and 30 percent in domestic stock calculated using the formula under section 11A.04, clause (11), the aid allocation to that retirement fund under this section ceases until the five-year annual rate of investment return equals or exceeds the performance of that composite portfolio.

(d) The amounts required under this subdivision are annually appropriated to the commissioner of revenue.