State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

H.F. 3764 (Thissen); S.F. 3506 (Larson)
H.F. 3385 (Thissen); S.F. 2982 (Larson)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s):	Minneapolis Firefighters Relief Association
Relevant Provisions of Law:	Minnesota Statutes, Chapter 423C
General Nature of Proposal:	H.F. 3764 (Thissen); S.F. 3506 (Larson): Minneapolis Firefighters Relief Association (MFRA); Increasing Service Pension, Joint-and-Survivor and Surviving Spouse Pensions by One Unit and Doubling Amount of Future Thirteenth Checks H.F. 3385 (Thissen); S.F. 2982 (Larson): Minneapolis Firefighters Relief Association (MFRA); Increasing Service Pension, Joint-and-Survivor and Surviving Spouse Pensions by One Unit
Date of Summary:	April 3, 2008

Specific Proposed Changes

H.F. 3764 (Thissen); S.F. 3506 (Larson):

(1) increases all service pension, joint-and-survivor, and surviving spouse pensions by approximately one unit when the plan's funding ratio exceeds 110 percent;

(2) specifies that the increase in item (1) above takes precedent over the additional lump sum payment triggered in Minneapolis firefighter law when the funding ratio exceeds 110 percent, and specifies that the benefit increase is payable not just to active members when they retire, but to the "retired membership";

(3) whenever the pension fund is less than 102 percent funded, increases the annual "thirteenth check" post-retirement adjustment from one-half of one percent of relief association special fund assets to one percent of relief association special fund assets, and specifies that any amount of excess investment income not used to pay the thirteenth check will be used to reduce the city of Minneapolis property tax levy to the association in the following year; and

(4) repeals the revised thirteenth check provision which passed the Legislature last year.

H.F. 3385 (Thissen); S.F. 2982 (Larson) is identical to the above bill except it lacks items (3) and (4) above.

Policy Issues Raised by the Proposed Legislation

1. Whether there is any need to consider this bill during this legislative session.
2. The cost of the benefit revisions intended under this legislation. The Commission rarely considers a benefit improvement without cost information.
3. Lack of any contribution by active members or benefit recipients to cover the cost of this proposal.
4. Unclear need for any increase in the unit value for the active membership.
5. Conflict with Commission's Principles of Pension Policy of providing benefit increase to those already retired.
6. Vague, contradictory, and confusing drafting:
   - application to deferred retirees and disabilitants;
   - trigger for payment of benefits;
   - permanent or intermittent benefit change.
7. Unclear need for increased 13^{th} check adjustment.
8. Lack of public purpose for various plan post-retirement adjustment mechanisms.
9. Treatment of unmarried service pensioners.
10. Appropriate amount of 13^{th} check adjustments.
11. Inappropriateness of "13^{th} check" last participant's club aspect.
12. Disability issue.
13. Actuarial condition of the Minneapolis Firefighters Relief Association and affordability.
14. Lack of local approval clause effective date.
15. Minneapolis Police Relief Association, comparable benefits.
16. Question of the extent of municipal support.

Potential Amendments

H3764-1A removes Section 3 from the bill, if the Commission concludes that the increased thirteenth check distribution proposed in the bill should be removed.

H3764-2A removes Sections 1 and 2 from the bill, if the Commission concludes that the proposed increase in units used to compute a pension should be removed.

H3764-3A can be used if Sections 1 and 2 remain in the bill, and adds a local approval clause for those sections.

H3764-4A is an alternative to Amendment H3764-1A and provides a one unit increase for disabilitants.

H3764-5A can be used if Section 1 remains in the bill, and increases the benefit to unmarried service providers a full percent, rather than .9 percent.

H3764-6A is an alternative to earlier amendments except Amendment H3764-3A, and can be used if the Commission concludes that the benefit increase under Section 1 is a permanent increase rather than an intermittent increase, and if the Commission wants to restrict the increase to active members only.

H3764-7A is an alternative to Amendment H3764-6A, and is comparable to that amendment except that H3764-7A includes a one percent increase for disabilitants.

H3764-8A an alternative to Amendments H3764-6A and H3764-7A, is like H3764-6A except that, consistent with the bill language but in conflict with Commission policy against applying benefit improvements to anyone who is not an active member, the improvement would apply to all active members, all deferred members, and all service pensioners and survivors.

H3764-9A is like Amendment H3764-8A, except that it also applies a one unit increase to disabilitants. The amendment is an alternative to Amendments H3764-6A, H3764-7A, and H3764-8A.

H3764-10A could be used in lieu of Amendments H3764-6A, H3764-7A, H3764-8A, and H3764-9A if the Commission wishes to leave the bill essentially unchanged except for specifying that the benefit increase is "up to one unit" rather than "one unit," and the trigger will be when funding exceeds 110 percent rather than equals or exceeds that funding level.

H3764-11A creates an employee contribution, in an amount to be set by the Commission, to help to pay for the benefit improvements of this bill.

State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Edward Burek, Deputy Director EB

RE: H.F. 3764 (Thissen); S.F. 3506 (Larson): Minneapolis Firefighters Relief Association (MFRA); Increasing Service Pension, Joint-and-Survivor and Surviving Spouse Pensions by One Unit and Doubling Amount of Future Thirteenth Checks

H.F. 3385 (Thissen); S.F. 2982 (Larson): Minneapolis Firefighters Relief Association (MFRA); Increasing Service Pension, Joint-and-Survivor and Surviving Spouse Pensions by One Unit

DATE: April 2, 2008

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

H.F. 3764 (Thissen); S.F. 3506 (Larson) does the following:

(1) increases all service pension, joint-and-survivor, and surviving spouse pensions by approximately one unit when the plan's funding ratio exceeds 110 percent;

(2) specifies that the increase in item (1) above takes precedent over the additional lump sum payment triggered in Minneapolis firefighter law when the funding ratio exceeds 110 percent, and specifies that the benefit increase is payable not just to active members when they retire, but to the "retired membership";

(3) whenever the pension fund is less than 102 percent funded, increases the annual "thirteenth check" post-retirement adjustment from one-half of one percent of relief association special fund assets to one percent of relief association special fund assets, and specifies that any amount of excess investment income not used to pay the thirteenth check will be used to reduce the city of Minneapolis property tax levy to the association in the following year; and

(4) repeals the revised thirteenth check provision which passed the Legislature last year.

H.F. 3385 (Thissen); S.F. 2982 (Larson) is identical to the above bill except it lacks items (3) and (4) above.

Comments

During the 2007 session, the Legislature passed a bill for the Minneapolis Firefighters Relief Association (MFRA), H.F. 2453 (Thissen); S.F. 2258 (Larson), which doubled the thirteenth check amount in situations where the fund is less than 102 percent funded. The bill was not approved by the City of Minneapolis. One of the bills introduced this session, H.F. 3385 (Thissen); S.F. 2982 (Larson), introduced near the end of February, may have been drafted before the city's rejection of that 2007 proposal. A later bill, H.F. 3764 (Thissen); S.F. 3506 (Larson), includes the thirteenth check provision which the city rejected, but revises it to specify that if the thirteenth check provision does not exhaust the excess assets, the remainder can be used to reduce Minneapolis property tax levy for the following year, and repeals the provision which was not approved by the Minneapolis City Council.

Background Information

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

- **Attachment A** contains background information on the Minneapolis Firefighters Relief Association (MFRA).
- **Attachment B** contains background information on the MFRA post-retirement adjustment mechanisms.
- **Attachment C** contains background information on MFRA funding problems.

Discussion and Analysis

H.F. 3764 (Thissen); S.F. 3506 (Larson) doubles the Minneapolis Firefighters Relief Association (MFRA) "thirteenth check" post-retirement adjustment when the pension fund's funding ratio is less than 102 percent, and when the plan's funding ratio exceeds 110 percent, permanently increases all retirement, survivor, and joint-and-survivor pensions by approximately one unit, including those who are already retired.

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

1. Need for Consideration. The issue is whether there is any need to consider this bill during this legislative session. Recent investment markets have been turbulent. Last year's stock market provided approximately a five percent return, only half the long-term average. As of this writing, the stock market in the current year is down nearly ten percent. These markets will harm all pension funds. This may be an inopportune time to consider a proposal to distribute more pension assets to retirees through a thirteenth check (Sections 3 and 4 of the bill), or to enhance benefits through increases in the unit value used to compute monthly benefits when the pension fund hits 110 percent funding (Sections 1 and 2 of the bill). As of the most recent actuarial valuation for this plan (December 31, 2006), the plan was 87 percent funded. The chance of it becoming 110 percent funded in the near term is remote at best.

2. Cost. The issue is the cost of the benefit revisions intended under this legislation. The Commission rarely considers a benefit improvement without cost information.

3. Employee/Retiree Avoidance of Cost Burden. The issue is the lack of any contribution by active members or benefit recipients to cover the cost of this proposal. There is no provision in the bill to have active members cover any of the cost. At the current time, few active members—and perhaps none—are contributing at all to the plan. Under Minnesota Statutes, Section 423C.04, Subdivision 4, once an individual has 25 years of service, employee contributions are deposited, not into the plan's special fund, but into a health care account set up for the individual, which is then used to cover health care expenses in retirement. The plan was closed to new entrants in 1980. At the current time, the last entrants to the plan will have, if there are no breaks in service, nearly 28 years of service. Thus, it is likely that currently no employees are contributing to the pension fund.

   There may be no practical way to charge retired member groups for this benefit improvement, at least not all of it. Trying to collect the cost of the improvement from retired groups would largely amount to withholding an amount from the monthly payments equal to the additional amount they would otherwise receive due to the improvement. The city, and the state through state aid, will bear the cost and financial risk for the benefit improvement.

4. Unclear Need for Unit Increase for Active Membership. The issue is the unclear need for any increase in the unit value under Sections 1 and 2 of the bill for the active membership. According to the most recent actuarial study, this plan has 31 active members, 374 service retirees, and 167 survivors. (The plan also has 51 individuals listed as disabled.) The plan was closed to new members in 1980. At this point, the last active members to enter this plan have nearly 28 years of service. The plan permits full unreduced retirement at age 50, and according to the plan's actuarial report the average age of the remaining active members is nearly 55. A benefit improvement for these individuals may not serve any clear public purpose. It may be difficult to demonstrate that they face any true financial hardship when they retire. It may also be difficult to make a case based on equity. If members of this plan contend their plan benefits are below those they would have if they were covered by the Public Employees Police and Fire Plan (PERA-P&F), that harm is self-inflicted by the full relief association membership. Consolidating into PERA-P&F was authorized by the 1987 Legislature and remains in law. Dozens of local relief associations chose to consolidate into PERA-P&F. The Minneapolis relief associations are among the four relief associations which chose not to consolidate. The Minneapolis relief associations, instead, chose to revise their plans to make consolidation more difficult. Given that the members and leadership of this relief association chose this path, the Commission might choose to conclude that the Minneapolis and state taxpayers should not be required to eliminate any self-inflicted harm.

5. Conflict with Commission's Principles of Pension Policy of Providing Benefit Increase to Those Already Retired. The issue is whether the proposed unit increase to those already retired can be justified. In part, Section 1 of the bill revises the formula or procedure used to compute the annuity, and applies that revision to those who are already retired. Applying this form of benefit increase to retirees is most unusual, and adds considerably to the cost or the proposal. In this plan, retirees and survivors outnumber

active members by 17 to 1. The Commission's Principles of Pension Policy states, on page 2, that retroactive benefit increases for retirees and other benefit recipients should not be permitted. The underlying concern reflected in that policy statement is cost. Depending upon the plan, the cost of providing benefit increases to retirees can be high, making it prohibitively expensive to make changes deemed appropriate for policy reasons. Revising benefits to existing annuitants (other than to adjust for the impact of inflation) is a gratuity. A benefit improvement is not part of any written or implied contract which induces these individuals to provide further service, because these individuals are no longer providing service.

6. Vague Drafting; Application to Deferred Retirees and Disabilitants. The issue is who is considered to be part of the "retired membership" or, in other words, who is eligible for inclusion in this benefit increase. Page 1, lines 18 and 20, state "Active members retiring after the effective date of this subdivision will be entitled to the additional unit upon retirement from the fire department, once the requirements of this legislation have been satisfied and the benefit has been provided to the *retired membership*." "Retired" or "retired membership" are not defined terms in this chapter. Other language in the paragraph clarifies that service retirees and survivors are included, but whether deferred members or disabilitants are included is left unstated. Deferred members have terminated from employment with the fire department but they are not yet receiving an annuity, so they are not "retired." The status of disabilitants under the plan is unclear. They are receiving a benefit, but they are not "retired."

7. Contradictory Drafting; Trigger for Payment of Benefits. The drafting of Section 1 contains inconsistent statements regarding what funding level is needed to trigger the benefit change. Page 1, lines 11 and 12, indicate that revised benefits are triggered when the funding ratio *is greater* than 110 percent, while page 1, lines 21 and 22, state that those events are triggered when the funding ratio *equals or exceeds* 110 percent.

8. Confusing Drafting; Permanent or Intermittent Benefit Change. The drafting is unclear regarding whether the benefit change is to be intermittent, depending upon the funding ratio as stated in the latest actuarial valuation, or a permanent increase first becoming payable when the an actuarial valuation indicates that a funding ratio of 110 percent has been met or exceeded. Page 1, lines 11 to 13, suggest that the additional unit is to be paid only if the most recent actuarial valuation indicates a funding ratio greater than 110 percent. That suggests that if the funding ratio exceeds 110 percent and the benefit increase begins to be paid, and whenever the latest actuarial valuation indicates that the funding ratio has fallen below 110 percent, the benefits being paid must be reduced. If that language is intended as the trigger for when a fixed, permanent increase first becomes effective, that language should be revised.

9. Unclear Need for Increased Thirteenth Check Adjustment. The policy issue is the appropriateness of again seeking to modify the thirteenth check mechanism, under Sections 3 and 4, given the other post-retirement adjustments provided under this plan, and given the recent rejection of that proposal by the City of Minneapolis. That provision in this bill (Section 3) differs from the rejected provision by adding a statement (page 3, lines 13 to 15) that "Any amount of the excess investment income not used to pay a postretirement benefit to eligible members shall be applied to reduce the city of Minneapolis' property tax levy to the association for the following calendar year." That may have minimal beneficial impact for the city. Under this proposal, if the required investment criteria is satisfied, one percent of relief association assets, rather than one-half percent, is declared to be "excess investment income" and will be distributed to the retired membership in a lump sum payment as a "thirteenth check." Under relief association law (the statement is found on page 3, lines 10 to 12), if the computed thirteenth check amount for a recipient exceeds the monthly benefit check normally paid to the individual, the thirteenth check payment must be capped at the normal monthly benefit amount. Thus, the excess investment income not used to pay a post-retirement benefit consists solely of the residual excess amounts, if any, above the capped payment. Whether any excess amount exists to offset property tax levies is a function of monthly benefit levels and the total amount of relief association assets, since excess assets are defined as one percent of that total. The higher the monthly benefit level, the less likely it is that there will be any residual excess income. The lower the asset level, the less likely it is that there will be any residual excess income. But the higher the monthly benefit level, the greater the need for financial support. Similarly, low asset levels may occur at times when it is necessary to rebuild a depleted pension fund. If this provision provides any relief to the city, it seems to be when that relief is least needed.

10. Lack of Public Purpose for Various Plan Post-Retirement Adjustment Mechanisms. The issue is the lack of need for the various post-retirement adjustment mechanisms in this plan. The primary rationale for post-retirement adjustments set forth in the Commission's Principles of Pension Policy is to replace all or a portion of the purchasing power of a retirement benefit that is lost to inflation. Minneapolis Firefighters Relief Association (MFRA) retirees and survivors cannot contend that their benefits have

not kept up with inflation. First, all annuities are escalated annually to match the percentage increase in the salary of a top grade Minneapolis firefighter. Those increases alone should be more than sufficient to adjust for inflation. Second, these relief associations pay benefits which are a portion of the current top grade firefighter or police officer salary. Over time, the Minneapolis relief associations have revised what they deem is includable as salary of a top grade firefighter or police officer, as applicable, which may lead to further increases in benefits. Third, these relief associations have not one, but three, provisions for adding to annuitant payments. In addition to the automatic escalator tied to the salary of a top grade firefighter or police officer, the plans provide an additional distribution of assets in the form of a thirteenth check whenever the investment rate of return for a five-year period exceeds by two percent the percentage increase in the applicable top grade salary for that same period. A few years ago a third increase mechanism was added to the plans, permitting an additional, and larger, distribution of assets to members whenever the funding ratio exceeds 110 percent, payable in addition to the escalator and thirteenth check.

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

11. Treatment of Unmarried Service Pensioners. The issue is whether the new benefit level for unmarried service pensioners is correctly stated in the bill. Page 1, lines 11 to 15, claim that every service pensioner, joint-and-survivor annuitant, and surviving spouse member is entitled to a one unit increase. However, language on page 1, lines 22 to 24, claims the increase is to be "up to one unit," rather than "one unit." The new pension amounts specified on lines 23 and 24 indicate a one unit increase for service pensioners and surviving spouse members, but the new higher benefit for unmarried service pensioners reflects an increase of .9 units rather than one unit. (Under existing law unmarried service pensioners receive a pension of 42.3 units (Minnesota Statutes, Section 423C.05, Subdivision 9). A one unit increase would create a 43.3 unit pension, rather than 43.2 units as stated in the bill. If this benefit level is not an error, an explanation from a representative of the pension fund, and perhaps clarifying language, is needed.

12. Appropriate Amount of Thirteenth Check Adjustments. The policy issue is the appropriateness of the doubling of the future thirteenth check adjustments in Section 3 in light of the amount of the current thirteenth check adjustment and the proposed unit adjustment in Section 1. Under the December 2005 actuarial valuation of the Minneapolis Firefighters Relief Association (MFRA), there were 385 retirees, 50 disabilitants, and 166 surviving spouses. Under the proposed legislation, the total distribution and potential individual payment amounts would double:

	Current potential distribution under the "13th check" provision (one-half of one percent of MFRA assets):	Proposed total distribution and potential individual payment amounts would double to:
Available for payments:	$1,212,981	$2,425,963
Lump sum payment to each retiree or disabilitant:	$2,434	$4,868
Survivors receive:	$1,217	$2,434

The proposed total distribution and potential individual payment amounts would be in addition to any amounts paid due to other lump sum distribution provisions of the plan, and in addition to any increase due to an increase in the salary of a top grade firefighter.

13. Inappropriateness of "Thirteenth Check" Last Participant's Club Aspect. The policy issue is the appropriateness of further modifying a post-retirement adjustment mechanism that already functions as a last participant's club and that may reflect jealousies among a declining group of "last" participants. That same concern may have been the motivation in whole or in part of the 110 percent funded post-retirement adjustment. With the closure of the Minneapolis Firefighters Relief Association (MFRA) to new active members in 1980, the retirement plan became a totally closed group and setting the size of post-retirement adjustments based on the size of retirement plan assets inevitably made the plan's operation a "last participant's club," where larger potential adjustments become possible with the twin developments of greater mandated funding and a smaller covered population. Older retirees may discern

that they will not be part of the ultimate beneficiaries of these twin developments, leading to support for requests to increase the size of the distributions prematurely, as this bill does.

14. Disability Issue. The wording of the bill increases benefits to active members (when they retire), retirees, and survivors, but it can be interpreted as not applying to disabilitants. An issue is whether this was intended. If the intention was to include disabilitants, the Commission may need to consider an amendment to clearly include them.

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

	2000		2001		2002		2003		2004		2005		2006	
Membership														
Active Members		104		84		76		58		42		37		31
Service Retirees		445		441		436		439		438		385		374
Disabilitants		8		6		8		8		6		50		51
Survivors		200		198		190		183		177		166		167
Deferred Retirees		1		2		2		2		0		0		0
Nonvest Frmr Mem		--		--		--		--		--		--		0
Total Membership		758		731		712		690		663		638		623
Funded Status														
Accrued Liability		$293,801,923		$293,396,109		$292,677,962		$293,955,306		$275,513,196		$312,563,011		$300,925,513
Current Assets		$315,900,478		$304,886,680		$255,194,400		$236,990,860		$248,545,796		$269,425,963		$263,275,562
Unf. Accr. Liability		($22,098,555)		($11,490,571)		$37,483,562		$56,964,446		$26,967,400		$43,137,048		$37,649,951
Funding Ratio	107.52%		103.92%		87.19%		80.62%		90.21%		86.20%		87.49%	
Financing Req.														
Covered Payroll		$7,054,115		$5,887,582		$5,539,933		$4,396,958		$3,141,585		$2,821,419		$2,489,368
Benefits Payable		$19,919,708		$19,610,997		$24,064,274				$20,598,079		$23,543,793		$21,440,705
Normal Cost	21.83%	$1,540,141	22.11%	$1,251,925	21.74%	$1,157,861	21.44%	$906,523	21.07%	$636,326	23.22%	$655,070	21.97%	$547,006
Admin Expenses	0.00%	--	0.00%	--	0.00%	--	0.00%	--	0.00%	--	0.00%	--	0.00%	--
Normal Cost & Exp	21.83%	$1,540,141	22.11%	$1,251,925	21.74%	$1,157,861	21.44%	$906,523	21.07%	$636,326	23.22%	$655,070	21.97%	$547,006
Normal Cost & Exp	21.83%	$1,540,141	22.11%	$1,251,925	21.74%	$1,157,861	21.44%	$906,523	21.07%	$636,326	23.22%	$655,070	21.97%	$547,006
Amortization	0.00%	$0	0.00%	$0	114.34%	$6,334,535	125.02%	$5,533,223	71.82%	$2,256,188	138.86%	$3,917,905	168.53%	$4,195,292
Total Req	21.83%	$1,540,141	22.11%	$1,251,925	136.08%	$7,492,396	146.46%	$6,439,746	92.89%	$2,892,514	162.08%	$4,572,975	190.50%	$4,742,298
Employee Contrib	8.00%	$564,329	8.00%	$471,006	8.00%	$443,195	3.10%	$136,209	1.27%	$39,852	0.43%	$12,010	--	--
Employer Contrib	14.71%	$975,812	14.11%	$780,918	13.74%	$731,713	30.32%	$1,333,171	68.42%	$2,149,604	235.75%	$6,651,656	102.88%	$2,561,180
Empl'er Add'l Cont.	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Direct State Fund.	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Other Govt. Fndg	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Admin Assessment	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Total Contrib	22.71%	$1,540,141	22.11%	$1,251,925	21.74%	$1,157,861	33.42%	$1,469,380	69.69%	$2,189,456	236.18%	$6,663,666	102.88%	$2,561,180
Total Requirements	21.83%	$1,540,141	22.11%	$1,251,925	136.08%	$7,492,396	146.46%	$6,439,746	92.89%	2,189,456	162.08%	6,663,666	190.50%	$4,742,298
Total Contributions	22.71%	$1,540,141	22.11%	$1,251,925	21.74%	$1,157,861	33.42%	$1,469,380	69.69%	2,892,514	236.18%	4,572,975	102.88%	$2,561,180
Deficiency(Surplus)	(0.88%)	$0	0.00%	$0	114.34%	$6,334,535	113.04%	$4,970,366	23.20%	($703,058)	(74.09%)	$2,090,691	87.62%	$2,181,118
Amort. Target Date	2010		2016		2010		2017		2020		2021		2021	
Actuary	Van Iwaarden		Van Iwaarden		Van Iwaarden		Van Iwaarden		Van Iwaarden		Van Iwaarden		Van Iwaarden	

16. Lack of Local Approval Clause Effective Date. Sections 1 and 2 of this bill, the increase in units used to compute pensions, is a benefit improvement, but those sections lack a local approval clause. The policy issue is the lack of a local approval clause for proposed legislation that affects a retirement plan that is located in one city and for which the financial responsibility is borne by that city. Under the Minnesota Constitution, Article XII, Section 2, local legislation must be approved by the affected locality. Although some past enactments relating to the Minneapolis Firefighters Relief Association (MFRA) have lacked a local approval effective date, a past failure of legislation to conform with a Constitutional requirement does not change its nature as local legislation.

17. Minneapolis Police Relief Association, Comparable Benefits. The Commission may choose to be aware that benefit improvements made in the Minneapolis Firefighters Relief Association (MFRA) soon lead to a similar request from the Minneapolis Police Relief Association (MPRA).

18. Question of the Extent of Municipal Support. The policy issue is the extent of support for the proposed legislation by the City of Minneapolis. Historically, the Commission has required some expression of support from the governing body of the affected municipality before it considered proposed local legislation in order to avoid wasting legislative time in processing legislation that ran a significant risk of not being approved. The City of Minneapolis has not supported recent benefit improvement legislation for its local plans. Proponents of the proposed legislation or representatives of the City of Minneapolis should be asked to testify or otherwise indicate whether the city is likely to support this legislation.

Amendments for Consideration

The following amendments are included for Commission consideration.

- **Amendment H3764-1A** removes Section 3 from the bill. The Commission might choose to do so if the Commission concludes that the increased thirteenth check distribution proposed in the bill should be removed.

- **Amendment H3764-2A** removes Sections 1 and 2 from the bill. The Commission may choose this amendment if the Commission concludes that the proposed increase in units used to compute a pension should be removed.

- **Amendment H3764-3A** can be used if Sections 1 and 2 remain in the bill. This amendment adds a local approval clause for those sections.

- **Amendment H3764-4A,** an alternative to Amendment H3764-1A, provides a one unit increase for disabilitants. This group is omitted from the bill as drafted. That may be an unintentional omission, or it may reflect a decision by the plan administration. Under recent changes, disabilitants from this plan are permitted to remain in disability status indefinitely, rather than be reclassified as a retiree when they attain normal retirement age. For individuals who are classified as duty disabilitants, the benefit is not taxable. Given the value of having a tax-free benefit, it may be that disabilitants are intentionally left out of this bill.

- **Amendment H3764-5A,** which can be used if Section 1 remains in the bill, increases the benefit to unmarried service providers a full percent, rather than .9 percent. The Commission may wish to hear testimony on which is the proper intended increase.

- **Amendment H3764-6A,** an alternative to earlier amendments except Amendment H3764-3A, can be used if the Commission concludes that the benefit increase under Section 1 is a permanent increase rather than an intermittent increase. It clarifies the language by revising Section 1 to make the increase permanent, using the increased pension units for the various members as stated on page 1, lines 23 and 24, of the bill. This permanent increase would become effective when, after the enactment date of this legislation, an actuarial valuation indicates a funding ratio in excess of 110 percent. Under this amendment, the benefit increase would be effective *for active members only.*

- **Amendment H3764-7A** is an alternative to Amendment H3764-6A. It is comparable to that amendment except that this amendment includes a one percent increase for disabilitants.

- **Amendment H3764-8A** is an alternative to Amendments H3764-6A and H3764-7A. Amendment H3764-8A is like Amendment H3764-6A, except that, consistent with the bill language (but in conflict with Commission policy against applying benefit improvements to anyone who is not an active member), the improvement would apply to all active members, all deferred members, and all service pensioners and survivors.

- **Amendment H3764-9A** is like Amendment H3764-8A, except that it also applies a one unit increase to disabilitants. The amendment is an alternative to Amendments H3764-6A, H3764-7A, and H3764-8A.

- **Amendment H3764-10A** could be used in lieu of Amendments H3764-6A, H3764-7A, H3764-8A, and H3764-9A if the Commission wishes to leave the bill essentially unchanged except for specifying that the benefit increase is "up to one unit" rather than "one unit," and the trigger will be when funding exceeds 110 percent rather than equals or exceeds that funding level.

- **Amendment H3764-11A** creates an employee contribution, in an amount to be set by the Commission, to help to pay for the benefit improvements of this bill.

Attachment A

Background Information on the Minneapolis Firefighters Relief Association

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

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

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

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

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

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

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

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

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

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

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

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

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

Attachment B

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

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

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

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

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

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

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

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

Post-Retirement Adjustment Mechanism	Compounded Annual Percentage Increase
Fairmont Police Relief Association	7.6%
Minnesota Post Retirement Investment Fund	5.7%
Minneapolis Firefighters Relief Association	5.4%
Minneapolis Police Relief Association	5.375%
Minneapolis Employees Retirement Fund	5.2%
Consumer Price Index	4.3%
Duluth Teachers Retirement Fund Association	2.9%
St. Paul Teachers Retirement Fund Association	2.26%

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

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

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

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

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

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

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

Attachment C

Background Information on the Minneapolis Firefighters Relief Association Funding Problems

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

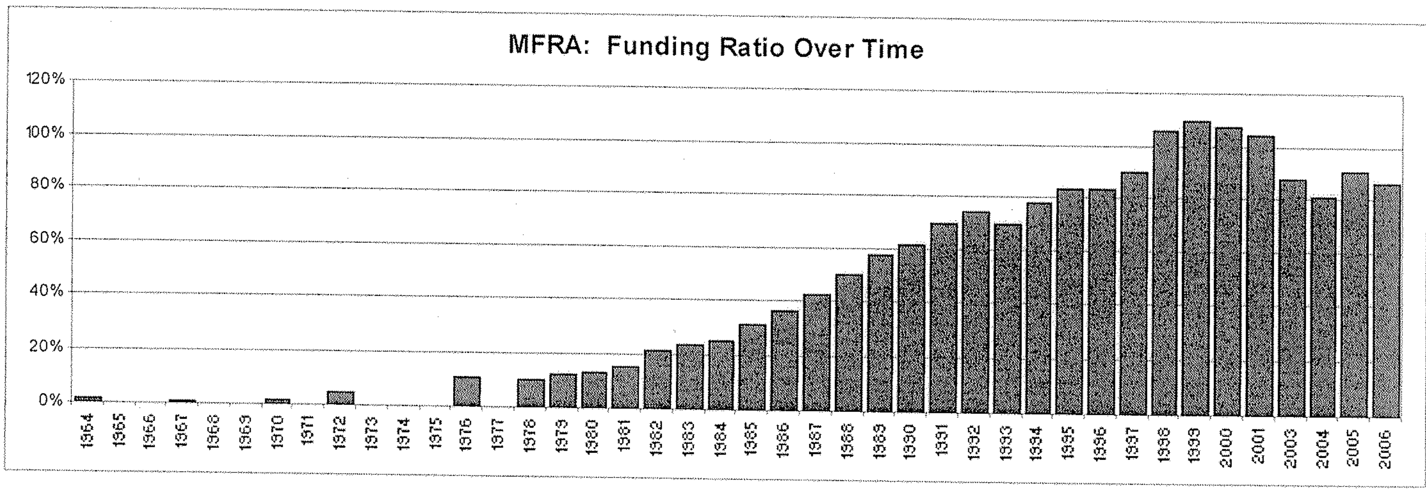
The addition of actuarial funding requirements in 1969 and 1980 and the addition of annual amortization state aid in 1980, supplemental amortization aid in 1984, and additional amortization aid in 1996, combined with the periodically strong investment markets since 1980, produced consistently improving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

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

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

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

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



Selected Actuarial Valuation Results: Minneapolis Firefighters Relief Association

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

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

.... moves to amend H.F. No. 3764; S.F. No. 3506, as follows:

Page 2, delete section 3

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

.... moves to amend H.F. No. 3764; S.F. No. 3506, as follows:

Pages 1 to 2, delete sections 1 and 2

Page 3, delete section 5

.... moves to amend H.F. No. 3764; S.F. No. 3506, as follows:

Page 2, after line 2, insert:

"**EFFECTIVE DATE; LOCAL APPROVAL.** This section is effective the day after the governing body of the city of Minneapolis and its chief clerical officer timely complete their compliance with Minnesota Statutes, section 645.021, subdivisions 2 and 3."

Page 2, after line 11, insert:

"**EFFECTIVE DATE; LOCAL APPROVAL.** This section is effective the day after the governing body of the city of Minneapolis and its chief clerical officer timely complete their compliance with Minnesota Statutes, section 645.021, subdivisions 2 and 3."

.... moves to amend H.F. No. 3764; S.F. No. 3506, as follows:

Page 1, line 14, before "joint" insert "disabilitant,"

Page 1, line 23, before "23" insert "42 units for disabilitants,"

.... moves to amend H.F. No. 3764; S.F. No. 3506, as follows:

Page 1, line 24, delete "43.2" and insert "43.3"

.... moves to amend H.F. No. 3764; S.F. No. 3506, as follows:

Page 1, line 11, delete everything after "increase."

Page 1, delete lines 12 to 25

Page 2, delete lines 1 and 2 and insert:

"(a) Notwithstanding subdivision 2, the service pensions specified in subdivision 2 per year of service are to be increased by one unit, not to exceed 43 units.

(b) Notwithstanding subdivision 7, the surviving spouse benefits payable under that subdivision are increased by one unit, not to exceed 23 units.

(c) Notwithstanding subdivision 9, the alternative service pension for an unmarried member as stated in that section is increased to 43.2 units.

(d) For joint and survivor annuities, this subdivision authorizes a benefit increase which is actuarially equivalent to one unit.

(e) The increases specified in this subdivision are permanent increases, first payable when the actuarial value of assets of the special fund is greater than 110 percent of the actuarial accrued liabilities, according to an annual actuarial valuation of the special fund performed in accordance with sections 356.215 and 356.216, and performed after the enactment date of this section. The association must revise benefits as specified in this subdivision beginning January 1 of the year following the year for which the valuation was prepared. That date is the activation date. This subdivision applies only to individuals who are active members on the activation date."

.... moves to amend H.F. No. 3764; S.F. No. 3506, as follows:

Page 1, line 11, delete everything after "increase."

Page 1, delete lines 12 to 25

Page 2, delete lines 1 and 2 and insert:

"(a) Notwithstanding subdivision 2, the service pensions specified in subdivision 2 per year of service are to be increased by one unit, not to exceed 43 units.

(b) Notwithstanding subdivisions 5 and 6, the service-related and non-service-related permanent disability benefit amounts as stated in those subdivisions are increased to 42 units.

(c) Notwithstanding subdivision 7, the surviving spouse benefits payable under that subdivision are increased by one unit, not to exceed 23 units.

(d) Notwithstanding subdivision 9, the alternative service pension for an unmarried member as stated in that section is increased to 43.2 units.

(e) For joint and survivor annuities, this subdivision authorizes a benefit increase which is actuarially equivalent to one unit.

(f) The increases specified in this subdivision are permanent increases, first payable when the actuarial value of assets of the special fund is greater than 110 percent of the actuarial accrued liabilities, according to an annual actuarial valuation of the special fund performed in accordance with sections 356.215 and 356.216, and performed after the enactment date of this section. The association must revise benefits as specified in this subdivision beginning January 1 of the year following the year for which the valuation was prepared. That date is the activation date. This subdivision applies only to individuals who are active members on the activation date."

.... moves to amend H.F. No. 3764; S.F. No. 3506, as follows:

Page 1, line 11, delete everything after "increase."

Page 1, delete lines 12 to 25

Page 2, delete lines 1 and 2 and insert:

"(a) Notwithstanding subdivision 2, the service pensions specified in subdivision 2 per year of service are to be increased by one unit, not to exceed 43 units.

(b) Notwithstanding subdivision 7, the surviving spouse benefits payable under that subdivision are increased by one unit, not to exceed 23 units.

(c) Notwithstanding subdivision 9, the alternative service pension for an unmarried member as stated in that section is increased to 43.2 units.

(d) For joint and survivor annuities, this subdivision authorizes a benefit increase which is actuarially equivalent to one unit.

(e) The increases specified in this subdivision are permanent increases, first payable when the actuarial value of assets of the special fund is greater than 110 percent of the actuarial accrued liabilities, according to an annual actuarial valuation of the special fund performed in accordance with sections 356.215 and 356.216, and performed after the enactment date of this section. The association must revise benefits as specified in this subdivision beginning January 1 of the year following the year for which the valuation was prepared. When the requirements of this paragraph are satisfied, in addition to applying to active members when they retire, this subdivision applies to all deferred members when they commence annuities and to all service pensioners and survivors."

.... moves to amend H.F. No. 3764; S.F. No. 3506, as follows:

Page 1, line 11, delete everything after "increase."

Page 1, delete lines 12 to 25

Page 2, delete lines 1 and 2 and insert:

"(a) Notwithstanding subdivision 2, the service pensions specified in subdivision 2 per year of service are to be increased by one unit, not to exceed 43 units.

(b) Notwithstanding subdivisions 5 and 6, the service-related and non-service-related permanent disability benefit amounts as stated in those subdivisions are increased to 42 units.

(c) Notwithstanding subdivision 7, the surviving spouse benefits payable under that subdivision are increased by one unit, not to exceed 23 units.

(d) Notwithstanding subdivision 9, the alternative service pension for an unmarried member as stated in that section is increased to 43.2 units.

(e) For joint and survivor annuities, this subdivision authorizes a benefit increase which is actuarially equivalent to one unit.

(f) The increases specified in this subdivision are permanent increases, first payable when the actuarial value of assets of the special fund is greater than 110 percent of the actuarial accrued liabilities, according to an annual actuarial valuation of the special fund performed in accordance with sections 356.215 and 356.216, and performed after the enactment date of this section. The association must revise benefits as specified in this subdivision beginning January 1 of the year following the year for which the valuation was prepared. When the requirements of this paragraph are satisfied, in addition to applying to active members when they retire, this subdivision applies to all deferred members when they commence annuities, to disabilitants as stated in this paragraph, and to all service pensioners and survivors."

.... moves to amend H.F. No. 3764; S.F. No. 3506, as follows:

Page 1, line 15, delete "of" and insert "not to exceed"

Page 1, delete line 21

Page 1, line 22, delete everything before "This"

.... moves to amend H.F. No. 3764; S.F. No. 3506, as follows:

Page 1, after line 8, insert:

"Section 1. Minnesota Statutes 2006, section 423C.04, is amended by adding a subdivision to read:

Subd. 5. **Additional employee contribution.** Notwithstanding subdivision 4, or any other law to the contrary, active members of the association shall pay an employee additional contribution equal to ... percent of salary for deposit in the special fund to assist in covering the cost of benefit improvements provided by sections 2, 3, and 4. The employee additional contribution shall commence with the first full payroll period beginning after the effective date of this section.

EFFECTIVE DATE; LOCAL APPROVAL. This section is effective the day after the governing body of the city of Minneapolis and its chief clerical officer timely complete their compliance with Minnesota Statutes, section 645.021, subdivisions 2 and 3."

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-FIFTH SESSION

HOUSE FILE NO. 3764

March 4, 2008
Authored by Thissen
The bill was read for the first time and referred to the Committee on Governmental Operations, Reform, Technology and Elections

A bill for an act

relating to retirement; modifying the investment-related postretirement adjustment of the Minneapolis firefighters relief association by correcting; providing an additional cost-of-living unit to members of the Minneapolis firefighters relief association upon achieving 110 percent funding; amending Minnesota Statutes 2006, sections 423C.05, by adding subdivisions; 423C.06, subdivision 2; repealing Laws 2007, chapter 134, article 9, section 2.

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

Section 1. Minnesota Statutes 2006, section 423C.05, is amended by adding a subdivision to read:

Subd. 10. **Pension unit increase.** When the actuarial value of assets of the special fund is greater than 110 percent of the actuarial accrued liabilities, according to the most recent annual actuarial valuation performed in accordance with sections 356.215 and 356.216, each service pensioner, joint survivor annuitant, and surviving spouse member is entitled to a onetime permanent benefit increase of one additional unit. The association shall add the additional unit to the pension to which the member is otherwise entitled beginning January 1 of the year following the year for which the valuation was prepared. Active members retiring after the effective date of this subdivision will be entitled to this additional unit upon retirement from the fire department, once the requirements of this legislation have been satisfied and the benefit has been provided to the retired membership. The benefit increase authorized by this subdivision will occur only when the funding ratio equals or exceeds 110 percent of liabilities. This subdivision authorizes a benefit increase of up to one unit to a total maximum of 43 units for a service pensioner, 23 units for a surviving spouse benefit, and 43.2 units for unmarried service pensioners. If adding an additional unit results in raising total units past the maximum, a partial unit may be added to reach the maximum. For joint survivor annuities, this subdivision authorizes a benefit increase actuarially equivalent to one unit.

Sec. 2. Minnesota Statutes 2006, section 423C.05, is amended by adding a subdivision to read:

Subd. 11. **Unit precedence.** The additional unit provided for in subdivision 10 shall take precedence over the benefit provided in section 423C.06, subdivision 4. In preparing the actuarial valuation under sections 356.215 and 356.216, the actuary for the fund shall first account for the benefit provided in subdivision 10 in determining the plan's funded ratio. No benefit payments may be made by the association under section 423C.06, subdivision 4, until the actuarial impact of the benefit provided for in subdivision 10 has been determined and factored into the funding ratio.

Sec. 3. Minnesota Statutes 2006, section 423C.06, subdivision 2, is amended to read:

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

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

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

EFFECTIVE DATE; LOCAL APPROVAL. This section is effective the day after the city council of the city of Minneapolis and its chief clerical officer timely complete their compliance with section 645.021, subdivisions 2 and 3.

Sec. 4. **REPEALER.**

Laws 2007, chapter 134, article 9, section 2, is repealed.

Sec. 5. **EFFECTIVE DATE.**

Sections 1 and 2 are effective the day following final enactment.