

WEST ST. PAUL FIREFIGHTERS RELIEF ASSOCIATION

ACTUARIAL CALCULATIONS PRELIMINARY  
TO CONSOLIDATION

38231

STATE OF MINNESOTA  
DEPARTMENT OF STATE  
FILED

JUN 2 1 1988

*Jean Anderson Howe*  
Secretary of State

THE *Wyatt* COMPANY

ACTUARIES AND CONSULTANTS

EMPLOYEE BENEFITS  
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June 17, 1988

Legislative Commission on  
Pensions and Retirement  
55 State Office Building  
St. Paul, Minnesota 55155

**RE: WEST ST. PAUL FIREFIGHTERS RELIEF ASSOCIATION**

Commission Members:

We have performed actuarial calculations for the Relief Association as of January 1, 1988 based on membership and financial data supplied by the Relief Association.

We certify that to the best of our knowledge and belief this actuarial work was performed in accordance with the requirements of Sections 353A.05 and 356.215, Minnesota Statutes, and the requirements of the Standards for Actuarial Work, adopted by the Commission on August 26, 1987.

Respectfully submitted,

THE WYATT COMPANY

*Robert E. Perkins*  
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Robert E. Perkins, FSA  
Consulting Actuary

*Michael C. Gunvalson*  
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Michael C. Gunvalson, ASA  
Associate Actuary

cc: The Honorable Arne Carlson, State Auditor  
The Honorable Joan Anderson Growe, Secretary of State  
Howard Bicker, State Board of Investment  
James Hacking, Public Employees Retirement Association  
James Noble, Legislative Auditor  
Thomas J. Triplett, Commissioner of Finance  
James Peterson, West St. Paul Firefighters Relief Association  
Dianne R. Latuff, City Clerk, City of West St. Paul

## REPORT PRELIMINARY TO CONSOLIDATION

The purpose of this report is to estimate the cost of consolidating the Relief Association with PERA Police and Fire (P&F) as specified in Minnesota Statutes, Chapter 353A prior to potential final municipal approval of the consolidation question.

The consolidation process provides the Relief Association members and their beneficiaries an opportunity to change their retirement benefit plan coverage by electing between Relief Association and P&F benefits. In order to evaluate the financial aspects of consolidation, the costs in Table 1 have been determined under three possible outcomes - all individuals elect Relief Association benefits (column 2), all individuals elect P&F benefits (column 3) and each individual elects the benefit plan which has the greater total benefit plan actuarial value (column 4).

Table 1 also compares the consolidation calculations to those found in the actuarial valuation of the Relief Association as of December 31, 1987, prepared by Gabriel, Roeder, Smith & Company. Since the Relief Association benefits are identical for columns 1 and 2, the differences in liabilities and costs are due to the use of different actuarial assumptions as required by statute. Table 2 lists the data and the major assumptions.

Whenever a retired member or the retired member's surviving spouse elects P&F benefits, the reserve for that benefit must be transferred to the Minnesota Post Retirement Investment Fund (MPRIF). The amount to be transferred if all benefit recipients who are eligible for MPRIF elect P&F benefits is \$1,522,949, which is

less than the current market value of assets. This amount includes an estimated increase of 6.000% for those who meet the MPRIF eligibility rules for a January 1, 1989 benefit adjustment.

Current benefit recipients who are not eligible for MPRIF will be paid directly by PERA. Their benefits will be escalated by the same percentage that applies to MPRIF annuitants, however no funds are required to be transferred to MPRIF.

Although the costs shown in Table 1 represent an appropriate range of estimates available today, the costs are subject to change in future years following the consolidation. The true cost of any pension plan is not completely determined until the last benefit payment has been made to the last benefit recipient. Prior to that date, annual budgets are determined by making assumptions regarding future experience.

Each year in the future following consolidation, municipal costs will be redetermined based on the elections made by members and beneficiaries and will consist of the following components:

- . Regular contributions (line 7) - a variable cost which will depend on the compensation of members still active.
  
- . Additional contributions (line 6) - a fixed cost which is an annual amount of \$116,579, the amount required to amortize the initial unfunded consolidation actuarial liability shown in column 4 of Table 1 by the year 2010.

- Additional contributions (undeterminable at this time) - a variable cost which will depend on actual experience. Any actuarial gains (for example, investment results in excess of 8%) will reduce future contributions and actuarial losses (for example, salary increases in excess of 6.5%) will increase future contributions.

WEST ST. PAUL FIREFIGHTERS RELIEF ASSOCIATION  
ACTUARIAL CALCULATIONS

TABLE 1

	<u>Prior Valuation</u>	<u>Election Of Benefits Under The Consolidation</u>		
	<u>Relief Association</u> (1)	<u>All Elect Relief Association</u> (2)	<u>All Elect PERA P&amp;F</u> (3)	<u>All Elect Greater Value</u> (4)
Date of Calculations	12/31/87	1/1/88	1/1/88	1/1/88
Actuarial Present Value of Projected Benefits	\$6,320,958	\$6,300,464	\$4,747,248	\$6,300,464
Actuarial Accrued Liability	5,041,003	5,298,252	3,884,065	5,298,252
Normal Cost	112,568	92,920	72,296	92,920
<u>Determination of Municipality Contributions (Before Adjustment For State Aid)</u>				
1. Actuarial Present Value of Projected Benefits	NA	\$6,300,464	\$4,747,248	\$6,300,464
2. Present Value of Future Member Contributions	NA	417,427	464,102	417,427
3. Present Value of Future Regular Municipal Contributions	NA	626,140	696,152	626,140
4. Market Value of Assets	3,951,243	3,951,243 *	3,951,243 *	3,951,243 *
5. Unfunded Amount to be Amortized (1-2-3-4) (not less than zero)	1,089,352 **	1,305,654	0	1,305,654
6. Additional Municipal Contribution (5 amortized by 2010)	80,756	116,579 ***	0 ***	116,579 ***
7. Regular Municipal Contribution	78,572 ****	58,318	58,318	58,318
8. Total Municipal Contribution (6+7)	159,328	174,897	58,318	174,897

\* Equal to market value reported by West St. Paul and assuming no changes by the State Board of Investments.

\*\* Based on the Actuarial Accrued Liability less the Current Assets of \$3,951,651.

\*\*\* An increase (decrease) in Market Value of \$100,000 will decrease (increase) the municipal contribution by \$8,928 whenever the unfunded amount is \$100,000 or greater.

\*\*\*\* Equals the Employer Normal Cost.

WEST ST. PAUL FIREFIGHTERS RELIEF ASSOCIATION  
DATA AND ASSUMPTIONS

TABLE 2

	<u>Prior Valuation</u>	<u>Consolidation Calculation</u>	
	<u>Relief Association</u> (1)	<u>All Elect Relief Association</u> (2)	<u>All Elect PERA P&amp;F</u> (3)
Number in Plan			
Active Members	13	13	13
Deferred Former Members	0	0	0
Retired Members and Beneficiaries	13	13	13
Member Contribution			
Percentage	8.0%	8.0%	8.0%
Compensation Base	\$424,944	\$485,980	\$485,980
Contribution	33,996	38,878	38,878
Municipal Contribution			
Percentage	NA	12.0%	12.0%
Compensation Base	NA	\$485,980	\$485,980
Contribution	NA	58,318	58,318
Interest - Before Retirement	5.0%	8.0%	8.0%
After Retirement	5.0%	8.0%	5.0%
Salary Increase	3.5%	6.5%	6.5%
Post Retirement Benefit Increase	3.5%	6.5%	NA
Retirement Age/Service	58/20	58/20	60/5
Other Assumptions	per West St. Paul Firefighters Relief Association Report	per PERA P&F Report	per PERA P&F Report

THE OFFGALL COMPANY

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Secretary of State

*Frank Anderson*

JUN 21 1988

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STATE OF MINNESOTA  
DEPARTMENT OF STATE