

WEST ST. PAUL FIREFIGHTERS RELIEF ASSOCIATION

ACTUARIAL CALCULATIONS PRELIMINARY
TO CONSOLIDATION

138388

STATE OF MINNESOTA
DEPARTMENT OF STATE
FILED

SEP 12 1988

James Anderson Howe
Secretary of State

Revised August 8, 1988

THE *Wyatt* COMPANY

AN INDEPENDENT WORLDWIDE BENEFITS
AND COMPENSATION CONSULTING FIRM

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August 8, 1988

EMPLOYEE BENEFITS
EMPLOYEE COMMUNICATIONS
RISK MANAGEMENT
INSURANCE CONSULTING
HEALTH CARE CONSULTING

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 revised our actuarial calculations in our June 17, 1988 report. This revision shows the financial impact of the new mortality table recently adopted by the PERA Board.

This change in mortality table increases the Additional Municipal Contribution (Table 1, line 6), assuming all elect the greater value, from \$116,579 to \$152,692.

The assets still exceed the maximum amount that would be transferred to the Minnesota Post Retirement Investment Fund.

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
Robert E. Perkins, FSA
Consulting Actuary

Michael C. Gunvalson
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

Revised August 8, 1988

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 \$1,615,225, 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 \$152,692, 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>		
	Relief Association (1) 12/31/87	All Elect Relief Association (2) 1/1/88	All Elect PERA P&F (3) 1/1/88	All Elect Greater Value (4) 1/1/88
Date of Calculations				
Actuarial Present Value of Projected Benefits	\$6,320,958	\$6,712,923	\$4,982,481	\$6,712,923
Actuarial Accrued Liability	5,041,003	5,657,771	4,082,827	5,657,771
Normal Cost	112,568	97,078	74,672	97,078
<u>Determination of Municipality Contributions (Before Adjustment For State Aid)</u>				
1. Actuarial Present Value of Projected Benefits	NA	\$6,712,923	\$4,982,481	\$6,712,923
2. Present Value of Future Member Contributions	NA	420,629	468,345	420,629
3. Present Value of Future Regular Municipal Contributions	NA	630,943	702,518	630,943
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 **	1,710,108	0	1,710,108
6. Additional Municipal Contribution (5 amortized by 2010)	80,756	152,692 ***	0 ***	152,692 ***
7. Regular Municipal Contribution	78,572 ****	58,318	58,318	58,318
8. Total Municipal Contribution (6+7)	159,328	211,010	58,318	211,010

* 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.

Revised August 8, 1988 - New Mortality Table

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&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

Revised August 8, 1988

AUG 15 1988

GABRIEL, ROEDER, SMITH & COMPANY
Actuaries & Consultants

200 Globe Building • 407 East Fort • Detroit, Michigan 48226 • 313-961-3346

August 4, 1988

Mr. James Peterson, Treasurer
West St. Paul Firefighter's Relief Association
1616 Humboldt
West St. Paul, Minnesota 55118

Re: West St. Paul Firefighter's Relief Association
12/31/87 Actuarial Valuation

Dear Mr. Peterson:

Based on the information provided by your auditor, Gregory Arnott of Arnott Sauer, Certified Public Accountants, in his letter to you dated July 19, 1988, the employer contribution reported on page D-2 of our valuation report should be \$170,756 rather than \$234,099. Therefore, we are enclosing a revised page D-2 with the appropriate amounts. Additional copies of this report page will also be sent to your Auditor, the Legislative Commission on Pensions and Retirement, the Legislative Reference Library and the State Auditor.

Sincerely,

Gary W. Findlay

Gary W. Findlay

GWF:jmg

Enclosure

CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The Association's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using an entry age actuarial funding method. Unfunded actuarial accrued liabilities are being amortized as a level dollar amount over a period of 22 years.

During the year ended December 31, 1987 contributions totaling \$205,511 -- \$170,756 employer and \$34,755 employee -- were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 1985. The employer contributions consisted of \$87,181 for normal cost and \$83,575 for amortization of the unfunded actuarial accrued liability. Employer contributions represented 37.66% of covered payroll.

- Significant actuarial assumptions used to compute contribution requirements were the same as those used to compute the standardized measure of the pension benefit obligation.

Computed Contribution Comparative Schedule

Fiscal Year December 31	Valuation Date December 31	Contribution Rates		Valuation Payroll	Dollar Contribution For Fiscal Year	
		Normal Cost % of Valuation Payroll	UAAL Dollars		Computed	Actual
1987	1985	19.23%	\$84,481	\$453,360	\$171,662	\$170,756
1988	1986	19.22	66,270	471,420	156,877	
1989	1987	18.49	80,756	424,944	159,328	

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SEP 12 1988

Jan Anderson
Secretary of State

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