

ST. PAUL FIRE DEPARTMENT RELIEF ASSOCIATION

ACTUARIAL CALCULATIONS PRELIMINARY
TO CONSOLIDATION

STATE OF MINNESOTA
DEPARTMENT OF STATE
FILED

JUN 27 1989

Jan Anderson
Secretary of State

This report replaces the report of May 9, 1989
and incorporates the Laws of Minnesota 1989 Chapter 319.

#39267

June 14, 1989

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

RE: ST. PAUL FIRE DEPARTMENT RELIEF
ASSOCIATION - REVISION OF MAY 9, 1989 REPORT
DUE TO LAWS OF MINNESOTA 1989 CHAPTER 319

Commission Members:

We have performed actuarial calculations preliminary to consolidation for the Relief Association as of January 1, 1989 based on membership and financial data supplied by the Relief Association.

This report incorporates the Laws of Minnesota 1989 Chapter 319 which provides for:

- o A level benefit for PERA Police and Fire of 2.5% for all years of service.
- o An increase in the pre-retirement interest rate from 8.0% to 8.5% for PERA Police and Fire, and an increase in both the pre-retirement interest rate and the post-retirement interest rate from 8.0% to 8.5% for the Relief Association. (The new amortization date of 2020 does not apply to a consolidated relief association)
- o A partial post retirement adjustment for individuals in the Minnesota Post Retirement Investment Fund who have received benefits for less than twelve full months.

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 22, 1988.

Respectfully submitted,

THE WYATT COMPANY

Robert E. Perkins

Robert E. Perkins, FSA
Consulting Actuary

Michael C. Gunvalson

Michael C. Gunvalson, FSA
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 Thoemke, Secretary, St. Paul Fire Department Relief Association
George Latimer, Mayor of St. Paul
Gary Norstrem, Treasurer, City of 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, 1988, 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 shows the data and lists 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 \$70,966,043, which

is less than the current market value of assets. This amount includes an estimated increase of 4.0% for those who meet the MPRIF eligibility rules for a January 1, 1990 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 \$7,482,354, 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 8.5%) will reduce future contributions and actuarial losses (for example, salary increases in excess of 6.5%) will increase future contributions.

ST. PAUL FIRE DEPARTMENT RELIEF ASSOCIATION
ACTUARIAL CALCULATIONS

TABLE 1

	Prior Valuation Relief Association (1) 12/31/88	Election Of Benefits Under The Consolidation		
		All Elect Relief Association (2) 1/1/89	All Elect PERA P&F (3) 1/1/89	All Elect Greater Value (4) 1/1/89
Date of Calculations				
Actuarial Present Value of Projected Benefits	\$179,258,248	\$183,103,329	\$155,520,915	\$183,996,128
Actuarial Accrued Liability	146,371,671	159,686,329	133,213,216	160,159,922
Normal Cost	2,770,814	2,209,862	2,097,647	2,253,436
<u>Determination of Municipality Contributions (Before Adjustment For State Aid)</u>				
1. Actuarial Present Value of Projected Benefits	\$179,258,248	\$183,103,329	\$155,520,915	\$183,996,128
2. Present Value of Future Member Contributions	NA	12,182,169	12,140,113	12,182,169
3. Present Value of Future Regular Municipal Contributions	NA	18,273,254	18,210,169	18,273,254
4. Market Value of Assets	73,901,308	73,901,308 *	73,901,308 *	73,901,308 *
5. Unfunded Amount to be Amortized (1-2-3-4)	72,470,363 **	78,746,598	51,269,325	79,639,397
6. Additional Municipal Contribution (5 amortized by 2010)	5,515,636	7,398,473 ***	4,816,903 ***	7,482,354 ***
7. Regular Municipal Contribution	1,789,126 ****	1,730,287	1,726,728	1,730,287
8. Total Municipal Contribution (6+7)	7,304,762	9,128,760	6,543,631	9,212,641

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

** Based on the Actuarial Accrued Liability less the Market Value of Assets.

*** An increase (decrease) in Market Value of \$100,000 will decrease (increase) the municipal contribution by \$9,395.

**** Equals the Employer Normal Cost.

Revised - 06/14/89 - Laws of Minnesota 1989 Chapter 319

ST. PAUL FIRE DEPARTMENT 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	322	322	322
Deferred Former Members	1	1	1
Retired Members and Beneficiaries	413	413	413
Member Contribution			
Percentage	8.0%	8.0%	8.0%
Compensation Base	\$12,271,098	\$14,419,059	\$14,389,401
Contribution	981,688	1,153,525	1,151,152
Municipal Contribution			
Percentage	NA	12.0%	12.0%
Compensation Base	NA	\$14,419,059	\$14,389,401
Contribution	NA	1,730,287	1,726,728
Interest - Before Retirement	5.0%	8.5%	8.5%
After Retirement	5.0%	8.5%	5.0%
Salary Increase	3.5%	6.5%	6.5%
Post Retirement Benefit Increase	3.5%	6.5%	NA
Retirement Age/Service	60/20	60/20	60/3
Other Assumptions	per St. Paul Relief Association Report	per PERA P&F Report	per PERA P&F Report

Paul Andrew Henn
Secretary of State
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