

ST. CLOUD FIRE DEPARTMENT RELIEF ASSOCIATION

ACTUARIAL CALCULATIONS PRELIMINARY
TO CONSOLIDATION

RECEIVED
OCT 20 1989
SECRETARY OF STATE

This report incorporates the Laws of Minnesota 1989 Chapter 319.

STATE OF MINNESOTA
DEPARTMENT OF STATE
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OCT 25 1989

James Andrew Hoover
Secretary of State

139702

THE *Wyatt* COMPANY

ACTUARIAL SERVICES
COMPENSATION PROGRAMS
ADMINISTRATIVE SYSTEMS
INTERNATIONAL SERVICES
ORGANIZATION SURVEYS

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EMPLOYEE BENEFITS
EMPLOYEE COMMUNICATIONS
RISK MANAGEMENT
INSURANCE CONSULTING
HEALTH CARE CONSULTING

October 17, 1989

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

RE: ST. CLOUD FIRE DEPARTMENT RELIEF ASSOCIATION

Commission Members:

We have performed actuarial calculations preliminary to consolidation for the Relief Association as of September 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.

St. Cloud Fire Department Relief Association provides for post-retirement medical and dental insurance coverage and the payment of a lump sum amount upon retirement. These benefits shall continue to be provided by the municipality regardless of an individual's election as to coverage under Relief Association or PERA. The numbers contained in this report do not reflect the cost of these benefits.

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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 September 20, 1989.

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 Grove, 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
Robert Litzinger, St. Cloud Fire Department Relief Association
Gregg A. Engdahl, City Administrator City of St. Cloud

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 (with the exception of the post-retirement medical and dental insurance coverage, and the lump sum retirement benefit), the differences in liabilities and costs are due primarily to the use of different actuarial assumptions as required by statute, and to a lesser extent, to the differences in data and the date of the calculation. 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 \$4,736,674, which is less than the current market value of assets. This amount includes an estimated increase of 3.8% 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 \$635,640, 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. CLOUD FIRE DEPARTMENT RELIEF ASSOCIATION
ACTUARIAL CALCULATIONS

TABLE 1

	Prior Valuation	Election Of Benefits Under The Consolidation		
	Relief Association* (1) 12/31/88	All Elect Relief Association (2) 9/1/89	All Elect PERA P&F (3) 9/1/89	All Elect Greater Value (4) 9/1/89
Date of Calculations				
Actuarial Present Value of Projected Benefits	\$12,638,862	\$13,515,251	\$10,810,300	\$13,683,521
Actuarial Accrued Liability	10,696,261	12,211,330	9,686,434	12,371,704
Normal Cost	235,929	146,269	127,949	147,882
<u>Determination of Municipality Contributions (Before Adjustment For State Aid)</u>				
1. Actuarial Present Value of Projected Benefits	\$12,638,862	\$13,515,251	\$10,810,300	\$13,683,521
2. Present Value of Future Member Contributions	NA	593,704	593,704	593,704
3. Present Value of Future Regular Municipal Contributions	NA	890,556	890,556	890,556
4. Market Value of Assets	4,777,488	5,509,087 **	5,509,087 **	5,509,087 **
5. Unfunded Amount to be Amortized (1-2-3-4)	5,928,332 ***	6,521,904	3,816,953	6,690,174
6. Additional Municipal Contribution (5 amortized by 2010)	451,199	619,652 ****	362,652 ****	635,640 ****
7. Regular Municipal Contribution	168,641 *****	104,135	104,135	104,135
8. Total Municipal Contribution (6+7)	619,840	723,787	466,787	739,775

* Includes a liability for post-retirement medical and dental insurance coverage and the payment of a lump sum amount upon retirement. If the liability associated with these provisions was not included, the Total Municipal Contribution reported on Line 8 would be \$559,801.

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

*** Based on the Actuarial Accrued Liability less the Current Assets of \$4,767,929.

**** An increase (decrease) in Market Value of \$100,000 will decrease (increase) the municipal contribution by \$9,501.

***** Equals the Employer Normal Cost.

ST. CLOUD FIRE DEPARTMENT RELIEF ASSOCIATION
DATA AND ASSUMPTIONS

TABLE 2

	Prior Valuation		Consolidation Calculation	
	Relief Association (1)		All Elect Relief Association (2)	All Elect PERA P&F (3)
Number in Plan				
Active Members	27		25	25
Deferred Former Members	0		0	0
Retired Members and Beneficiaries	30		32	32
Member Contribution				
Percentage	8.0%		8.0%	8.0%
Compensation Base	\$841,104		\$867,793	\$867,793
Contribution	67,288		69,423	69,423
Municipal Contribution				
Percentage	NA		12.0%	12.0%
Compensation Base	NA		\$867,793	\$867,793
Contribution	NA		104,135	104,135
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. Cloud Fire Department Relief Association Report	per PERA P&F Report	per PERA P&F Report

James Anderson Nelson
Secretary of State

OCT 25 1989

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