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Firefighters
Relief Association
Pension Fund

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July 9, 2003

Lawrence Martin
Legislative Commission
on Pensions and Retirement
Room 55, State Office Building
Saint Paul, Minnesota 55155

Dear Mr. Martin,

I am providing you with an updated letter from our Actuary for our 2002 Post Retirement Benefit calculation. The 5-year average salary increase of a first grade Firefighter was calculated using an increase of 4% for the year 2002. In actuality the percentage of increase for 2002 was .838%

Sincerely,

W. C. Schirmer
W. C. Schirmer
Executive Secretary

/WCS

cc: Brian Rice, Rice Michels and Johnson
Dianne Syverson, Office of the State Auditor
Judith Stroebel, Office of the State Auditor
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VAN IWAARDEN

Retirement planning for corporations

June 20, 2003

Mr. Walter C. Schirmer
Executive Secretary
Minneapolis Firefighters' Relief Association
2021 East Hennepin Avenue, Suite 360
Minneapolis, Minnesota 55413-2725

RE: Review of Excess Investment Income Calculation Method

Dear Wally:

In our December 31, 2002, actuarial report, we included a preliminary calculation of the Excess Investment Income in order to compute the actuarial value of assets. This amount is also used to determine the Post-Retirement Benefit (PRB). As you know, there is no PRB for the current year because investment performance did not exceed salary increases by more than 2% over the last five years. At the Board meeting in May, it was pointed out that the salary increase for the 2002 calendar year was not correct. This letter provides the corrected information and lays out the detailed calculation methodology that should be used in the future.

The relevant excerpt from the 2002 actuarial report follows:

C. Excess investment income

1. Salary increases and time-weighted rate of return on assets

Fiscal Year	Salary Increase	Asset Return
1998	7.420%	20.735%
1999	6.833%	18.278%
2000	3.037%	-2.698%
2001	3.335%	-3.302%
2002	4.000%	-9.650%
Arithmetic average:	4.925%	4.673%

2. Determination of excess investment income

a. Excess of asset return over salary increase	-0.25%
b. Excess minus 2%	0.00%
c. Lesser of 1.5% or 2.b. times MVA	$0

The salary increase for 2002 is not the actual increase but the assumed rate of increase of 4%. The actual rate of increase should be used.

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Because changes in unit value are linked to changes in pay, we have used the changes in unit value to calculate the change in salary for purposes of this review. We recommend this method be used in the future. We also recommend clarifying that the change in unit value will be based on the actual unit value in effect on December 31 of each year, with the exception that if a new contract has been adopted before the actuarial report is completed and there is a retroactive adjustment, the retroactive adjustment be reflected in the most recent December 31 value only. All other retroactive adjustments will be reflected in the actuarial valuation for the following December 31 and included in the calculations at that time.

We also propose to clarify that the calculation will be carried out to 3 decimals and rounded. For example, the most recent increase will be shown as 0.838%. The following table shows the basic information and the result:

Fiscal Year	Dec 31 Unit Value	Increase Rounded
	59.1568	
1998	64.8516	9.627%
1999	67.8887	4.683%
2000	69.8559	2.898%
2001	72.4039	3.648%
2002	73.0107	0.838%

The revised excerpt would then be:

C. Excess investment income

1. Salary increases and time-weighted rate of return on assets

Fiscal Year	Salary Increase	Asset Return
1998	9.627%	20.735%
1999	4.683%	18.278%
2000	2.898%	-2.698%
2001	3.648%	-3.302%
2002	0.838%	-9.650%
Arithmetic average:	4.339%	4.673%

2. Determination of excess investment income

a. Excess of asset return over salary increase	0.334%
b. Excess minus 2%	0.000%
c. Lesser of 1.5% or 2.b. times market value of assets	0

This letter was reviewed in draft form by all of the recipients and has been revised to reflect the consensus of all.

Sincerely,

Mark Meyer

Mark D. Meyer, JD, FSA
Consulting Actuary

Attach:

cc: Kathy Morkrid - MFRA
Paul Krueger – Van Iwaarden Associates
Brian Rice – Rice, Michels & Johnson