

MINNEAPOLIS POLICE RELIEF ASSOCIATION

SPECIAL FUND

*December 31, 2004
Actuarial Valuation*

May, 2005

MINNEAPOLIS POLICE RELIEF ASSOCIATION
December 31, 2004 Actuarial Valuation

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MINNEAPOLIS POLICE RELIEF ASSOCIATION*December 31, 2004 Actuarial Valuation***Introduction****Purpose**

This report presents the results of the December 31, 2004 valuation for the Minneapolis Police Relief Association. Its primary purposes are:

- to determine the funded status as of December 31, 2004,
- to determine the normal cost for 2004 and the required amortization payment, and
- to present information required to be disclosed under Governmental Accounting Standards Board Statement No. 25 (GASB 25) as of December 31, 2004.

Sources of data

The Relief Association supplied December 31, 2004 data for all active and inactive members, including unit values and historical salary increase rates. The Relief Association has also provided asset information regarding the special fund including historical rates of return. We have relied on this data in preparing this report.

Changes from the previous valuation

The prior actuarial valuation of the plan was prepared as of December 31, 2003. The actuarial assumptions and methods used to prepare this report are the same as those used in the 2003 report. The unit value recognized in measuring liabilities has increased from 83.19 as of December 31, 2003 to 86.02 as of December 31, 2004. Future unit values are projected at 4% per year.

Summary of valuation results

As of December 31, 2004, the funded status of the plan (actuarial value of assets divided by actuarial accrued liabilities), is 70.7% (see page 7). This is an increase from last year's funded ratio of 64.5%. On a market value basis, the funded status has increased from 69.5% to 76.6%.

The increase is due in part to an increase in unit value less than expected. For the December 31, 2003 valuation, we recognized a unit value of 83.19. We assumed the anticipated increase under the current contract to 86.53 units. The actual unit value effective in October 2004 is 86.02.

Favorable investment performance also contributed to an improvement in the funded ratio. Investment return for 2004 (9.5% based on market value) was greater than the 6.0% investment return assumption dictated by statute. The actuarial value of assets increased by \$22 million, over \$10 million more than expected.

MINNEAPOLIS POLICE RELIEF ASSOCIATION
December 31, 2004 Actuarial Valuation

Introduction (continued)

The unfunded actuarial accrued liability has decreased from \$165,121,464 last year to \$133,474,889 as of December 31, 2004. This decrease in the unfunded liability contributed to lowering the amortization payment from \$31,678,807 to \$29,892,885.

The current year results are a "snapshot" of the current actuarial status of the plan and are not necessarily indicative of long-term expectations. Nonetheless, it is crucial to the actuarial soundness of the fund that the City and the State fully contribute the required contribution outlined in this actuarial report.

Because the five-year average rate of return on investments did not exceed the five-year average salary increase rate, no "13th Check" will be payable in 2005.

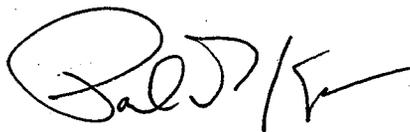
Actuarial certification

We certify that the actuarial valuation has been prepared in accordance with Minnesota Statutes §§356.20-.23, §423B, and §69.77 as they relate to police department relief associations in cities of the first class in general and the Minneapolis Police Relief Association in particular.

Respectfully submitted,

 *Mark Meyer* _{PXC}

Mark D. Meyer, FSA, MAAA
Consulting Actuary



Paul D. Krueger, JD, EA
Consulting Actuary

Summary of Results

<u>A. Plan participant data</u>	<u>December 31, 2003</u>	<u>December 31, 2004</u>
1. Number of participants		
a. Active employees	24	18
b. Terminated vested employees	0	0
c. Retirees	689	678
d. Disability	0	0
e. Surviving spouses	244	242
f. Surviving children	2	1
g. Total	959	939
<u>B. Normal costs</u>	<u>2003 Plan Year</u>	<u>2004 Plan Year</u>
1. Total normal cost		
a. Amount	\$367,974	\$264,361
b. Percentage of active payroll	19.78%	18.50%
2. Employer normal cost		
a. Amount	219,144	150,020
b. Percentage of active payroll	11.78%	10.50%
<u>C. Amortization payments</u>		
1. Unfunded actuarial accrued liability	\$165,121,464	\$133,474,889
2. Amortization payment	31,678,807	29,892,885
<u>D. Value of plan assets</u>	<u>December 31, 2003</u>	<u>December 31, 2004</u>
1. Market value	\$323,467,992	\$348,910,985
2. Actuarial value (for calculating contributions)	300,154,422	322,278,156
<u>E. Benefit liabilities</u>		
1. Present value of future benefits	\$465,848,322	\$456,143,744
2. Actuarial accrued liability	465,275,886	455,753,045
<u>F. Funded status</u>		
1. Market value of assets as a % of liabilities	69.5%	76.6%
2. Actuarial value of assets as a % of liabilities	64.5%	70.7%

MINNEAPOLIS POLICE RELIEF ASSOCIATION

December 31, 2004 Actuarial Valuation

Funding Basis

Actuarial Value of Assets

A. Average unrealized gain

<u>Year Ending December 31:</u>	<u>Market Value</u>	<u>Book Value</u>	<u>Unrealized Gain (Market - Book)</u>
2002	277,143,300	313,615,033	(36,471,733)
2003	323,467,992	305,535,163	17,932,829
2004	348,910,985	318,231,193	30,679,792
		Average:	\$4,046,963

B. Book value of assets December 31, 2004

\$318,231,193

C. Excess investment income

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

<u>Fiscal Year</u>	<u>Salary Increase</u>	<u>Asset Return</u>
2000	1.498%	-1.641%
2001	9.539%	-3.900%
2002	7.622%	-10.100%
2003	3.884%	22.700%
2004	3.410%	9.600%
Arithmetic average:	5.191%	3.332%

2. Determination of excess investment income

a. Excess of asset return over salary increase	-1.859%
b. Excess minus 2%	-3.859%
c. Lesser of 0.5% or 2.b., times market value (not < 0)	0
d. December 2004 monthly benefits paid	2,758,425
e. Adjustment to assets (lesser of c. or d.)	0

D. Actuarial value of assets December 31, 2004

\$322,278,156

(A. + B. - C.2.e.)

MINNEAPOLIS POLICE RELIEF ASSOCIATION

December 31, 2004 Actuarial Valuation

Funding Basis

Actuarial Value of Assets

A. Average unrealized gain

<u>Year Ending December 31:</u>	<u>Market Value</u>	<u>Book Value</u>	<u>Unrealized Gain (Market - Book)</u>
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C. Excess investment income

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2002	7.622%	-10.100%
2003	3.884%	22.700%
2004	3.410%	9.500%
Arithmetic average:	5.191%	3.312%

2. Determination of excess investment income

a. Excess of asset return over salary increase	-1.879%
b. Excess minus 2%	-3.879%
c. Lesser of 0.5% or 2.b., times market value (not < 0)	0
d. December 2004 monthly benefits paid	2,758,425
e. Adjustment to assets (lesser of c. or d.)	0

D. Actuarial value of assets December 31, 2004

\$322,278,156

(A. + B. - C.2.e.)

MINNEAPOLIS POLICE RELIEF ASSOCIATION
December 31, 2004 Actuarial Valuation

Summary of Member Data

	<u>December 31, 2003</u>	<u>December 31, 2004</u>
<u>A. Active members</u>		
1. Number		
a. Fully vested	24	18
b. Nonvested	0	0
c. Total	24	18
2. Average age	55.0	55.2
3. Average years of service	30.4	31.1
4. Total annual payroll for the year ending on valuation date	\$1,860,356	\$1,429,255
5. Average annual salary	\$77,515	\$79,403
<u>B. Vested terminated members</u>		
1. Number	0	0
2. Total annual deferred benefits	\$0	\$0
<u>C. Retirees</u>		
1. Age & service	689	678
2. Disability	0	0
3. Total	689	678
4. Total annual benefits	\$27,701,690	\$27,957,560
5. Average annual benefit	\$40,206	\$41,235
<u>D. Beneficiaries</u>		
1. Spouses	244	242
2. Children	2	1
3. Total	246	243
4. Total annual benefits	\$5,492,564	\$5,570,029
5. Average annual benefit	\$22,327	\$22,922
<u>E. Total number of members (A.1. + B.1. + C.3. + D.3.)</u>	959	939

*December 31, 2004 Actuarial Valuation***Summary of Changes in Membership**

	<u>Actives</u>	<u>Vested Terminees</u>	<u>Retirees</u>	<u>Beneficiaries</u>	<u>Total</u>
<u>A. Number of members on December 31, 2003</u>	24	0	689	246	959
<u>B. Changes in membership</u>					
1. Retirements	(6)		6		0
2. Vested terminations					0
3. Active deaths					0
4. Retiree deaths			(17)	11	(6)
5. Beneficiary deaths				(13)	(13)
6. Expiration of surviving child benefits				(1)	(1)
7. Corrections					0
8. Total changes	(6)	0	(11)	(3)	(20)
<u>C. Number of members on December 31, 2004</u>	18	0	678	243	939

Funding Basis

Actuarial Values Used to Determine Contribution

December 31, 2003 December 31, 2004

A. Actuarial present value of projected benefits (the value of all future benefits to be paid to the current group of members)

1. Active members	\$18,684,732	\$14,364,116
2. Vested terminated members	0	0
3. Retired members	396,850,011	391,822,189
4. Spouses and children receiving benefits	50,313,579	49,957,439
5. Disabled members receiving benefits	0	0
6. Total present value of projected benefits	465,848,322	456,143,744

B. Actuarial accrued liability (the cost allocated to all prior years)

1. Active members	\$18,112,296	\$13,973,417
2. Vested terminated members	0	0
3. Retired members	396,850,011	391,822,189
4. Spouses and children receiving benefits	50,313,579	49,957,439
5. Disabled members receiving benefits	0	0
6. Total actuarial accrued liability	465,275,886	455,753,045

C. Amortization of unfunded actuarial accrued liability

1. Total actuarial accrued liability (B.6.)	\$465,275,886	\$455,753,045
2. Actuarial value of assets	300,154,422	322,278,156
3. Unfunded actuarial accrued liability (1. - 2.)	165,121,464	133,474,889
4. Funded status (2. ÷ 1.)	64.5%	70.7%
5. Years left in amortization period	6	5
6. Amortization payment	31,678,807	29,892,885

D. Normal cost (the cost allocated to the current year)

1. Present value of future normal costs (A.6. - B.6.)	\$572,436	\$390,699
2. Normal cost as a dollar amount		
a. Total normal cost	367,974	264,361
b. Statutory adjustment for member contributions	148,828	114,340
c. Employer normal cost (a. - b.)	219,144	150,020
3. Payroll for year ending on valuation date	1,860,356	1,429,255
4. Normal cost as a percent of active payroll		
a. Total normal cost (2.a. ÷ 3.)	19.78%	18.50%
b. Statutory adjustment for member contributions (2.b. ÷ 3.)	8.00%	8.00%
c. Employer normal cost (2.c. ÷ 3.)	11.78%	10.50%

Funding Basis

Changes in the Unfunded Actuarial Accrued Liability

A. Liability gain or loss for the year ending on December 30, 2004

1. Expected actuarial accrued liability (AAL)	
a. AAL as of December 31, 2003	\$465,275,886
b. Normal cost as of December 31, 2004 (excluding expenses)	264,361
c. Interest to December 30, 2004 on the AAL and normal cost	27,916,553
d. Benefit payments for the year	(31,855,476)
e. Interest on benefit payments (1/2 year)	(955,664)
f. Expected AAL on December 30, 2004 (sum of a. through e.)	460,645,660
2. Actual AAL on December 31, 2004	
a. Before any assumption or plan changes	462,375,824
b. After unit value changes	455,753,045
c. After assumption and unit value changes	455,753,045
3. Liability (gain) or loss	
a. Due to plan experience different from that expected (2a. - 1f.)	1,730,164
b. Due to change in unit value different from expected (2.b. - 2.a.)	(6,622,779)
c. Due to changes in actuarial assumptions (2c. - 2b.)	0
d. Total (a. + b. + c.)	(4,892,615)

B. Asset gain or loss for the year ending on December 30, 2004

1. Expected actuarial value of assets	
a. Actuarial value of assets on December 31, 2003	300,154,422
b. Benefit payments and expenses for the year	(33,567,518)
c. Contributions for the year	27,889,552
d. Expected return on assets	17,838,926
e. Expected actuarial value of assets on December 30, 2004 (sum of a. through d.)	312,315,382
2. Actual actuarial value of assets on December 31, 2004	322,278,156
3. Asset (gain) or loss (1e. - 2.)	(9,962,773)

C. Changes in the unfunded AAL

1. Expected unfunded AAL on December 31, 2004	148,330,278
2. Changes	
a. Actuarial (gain) or loss other than change in unit value	(8,232,610)
b. Change in unit value different from expected	(6,622,779)
c. Changes in actuarial methods and assumptions	0
d. Total change	(14,855,388)
3. Unfunded AAL on December 31, 2004	133,474,889

MINNEAPOLIS POLICE RELIEF ASSOCIATION
December 31, 2004 Actuarial Valuation

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Accounting Basis

Statement of Plan Net Assets

<u>A. Investment assets</u>	<u>Market</u>	<u>Book</u>
Government obligations	\$31,863,618	\$31,628,536
Corporate obligations	14,530,040	14,156,875
Corporate stock	27,848,239	21,719,978
Limited partnerships	694,474	694,474
Equity collective fund	14,941,127	12,656,115
Mutual funds	26,994,319	26,371,842
Common stock index account	46,907,872	46,342,792
Bond market account	39,090,075	33,434,657
International share account	121,763,081	106,947,784
Short-term cash equivalents	<u>25,174,068</u>	<u>25,174,068</u>
Total	349,806,913	319,127,121
<u>B. Checking account</u>	7,215	7,215
<u>C. Accrued/payable</u>		
Accrued investment income	436,669	436,669
Accrued contributions	283,116	283,116
Investment sales receivable	3,126,618	3,126,618
Accounts payable	(160,581)	(160,581)
Investment purchase payable	(4,588,965)	(4,588,965)
Total	(903,143)	(903,143)
<u>D. Total pension assets (A. + B. + C.)</u>	\$348,910,985	\$318,231,193

Accounting Basis

Statement of Changes in Plan Net Assets

	<u>2003</u>	<u>2004</u>
<u>A. Additions</u>		
1. Contributions		
a. State	\$5,879,854	\$6,745,843
b. City	13,540,305	21,143,709
c. Plan members	3,815	0
d. Total	19,423,974	27,889,552
2. Investment income	59,089,871	30,914,670
3. Unclaimed property	248,693	206,289
4. Proceeds from litigation	0	0
4. Total additions	78,762,538	59,010,511
<u>B. Deductions</u>		
1. Benefits paid	\$31,855,476	\$32,797,952
2. Refund of contributions	0	0
3. Expenses	582,370	769,566
4. Total deductions	32,437,846	33,567,518
<u>C. Net increase (A.4. - B.4.)</u>	46,324,692	25,442,993
<u>D. Net assets held in special fund</u>		
1. Beginning of year	\$277,143,300	\$323,467,992
2. Post closing audit adjustments	0	0
3. End of year	\$323,467,992	\$348,910,985

Accounting Basis

Schedule of Funding Progress
(Dollar amounts in thousands)

<u>As of December 31:</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
1992	\$265,307	\$325,891	\$60,584	81.4%	\$16,913	358.2%
1993	288,942	347,879	58,937	83.1%	16,577	355.5%
1994	280,772	344,087	63,315	81.6%	14,799	427.8%
1995	294,692	358,657	63,965	82.2%	13,938	458.9%
1996	320,686	382,957	62,271	83.7%	13,003	478.9%
1997	362,683	398,728	36,045	91.0%	10,818	333.2%
1998	387,530	414,694	27,164	93.4%	8,857	306.7%
1999	427,122	447,596	20,474	95.4%	7,504	272.8%
2000	391,083	447,086	56,003	87.5%	6,583	850.7%
2001	349,170	464,649	115,479	75.1%	5,238	2204.6%
2002	309,667	463,487	153,820	66.8%	3,955	3889.3%
2003	300,154	465,276	165,122	64.5%	1,860	8877.5%
2004	322,278	455,753	133,475	70.7%	1,429	9340.4%

Accounting Basis

Schedule of Employer Contributions

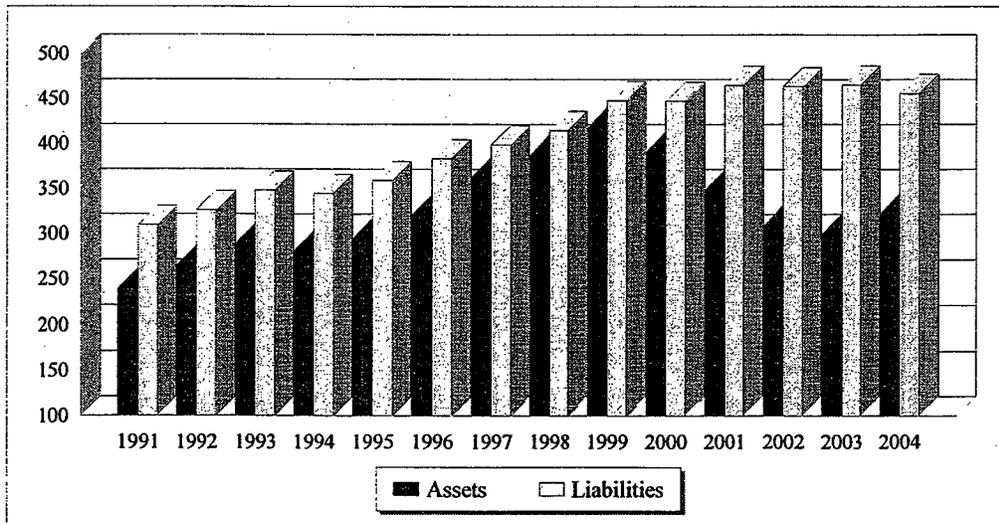
<u>Year Ended December 31:</u>	<u>Employer Contributions Paid During the Year</u>
1992	\$8,281,262
1993	8,859,961
1994	6,239,591
1995	8,359,115
1996	5,544,721
1997	7,298,118
1998	6,207,956
1999	3,719,453
2000	4,563,133
2001	3,459,195
2002	8,325,895
2003	5,879,854
2004	27,889,552

Historical Tables

Historical Funding Ratio Schedule
 (Dollar amounts in thousands)

<u>As of</u> <u>December 31:</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Percent</u> <u>Funded</u>
1989	\$290,537	\$211,081	72.7%
1990#	299,151	223,919	74.9%
1991	309,429	238,975	77.2%
1992#	325,891	265,307	81.4%
1993#	347,879	288,942	83.1%
1994#	344,087	280,772	81.6%
1995	358,657	294,692	82.2%
1996	382,957	320,686	83.7%
1997	398,728	362,683	91.0%
1998#	414,694	387,531	93.4%
1999	447,596	418,122	95.4%
2000	447,086	391,083	87.5%
2001	464,649	349,170	75.1%
2002	463,487	309,667	66.8%
2003	465,276	300,154	64.5%
2004	455,753	322,278	70.7%

#After change in benefit provisions



Historical Tables

History of Employer Contributions

<u>Valuation December 31:</u>	<u>Normal Cost as a Percent of Payroll</u>	<u>Amortization of Unfunded Actuarial Liability</u>
1989	24.53%	\$6,727,495
1990	25.61%	6,547,850
1991	25.58%	6,319,193
1992	25.62%	5,615,587
1993	25.57%	5,663,676
1994	25.43%	6,331,000
1995	24.91%	6,683,106
1996	24.83%	6,831,165
1997	24.66%	4,175,261
1998	26.53%	3,344,809
1999	26.50%	2,624,238
2000	24.03%	7,767,618
2001	23.10%	17,543,533
2002	21.56%	25,994,756
2003	19.78%	31,678,807
2004	18.50%	29,892,885

Historical Tables

Comparative Schedule of Active Members

<u>Valuation</u> <u>December 31:</u>	<u>Number of</u> <u>Active</u> <u>Members</u>	<u>Projected</u> <u>Payroll</u>	<u>Averages</u>		
			<u>Age</u>	<u>Service</u>	<u>Pay</u>
1989	460	\$18,421,160	46.6	21.0	\$40,046
1990	433	17,859,951	47.3	21.8	41,247
1991	410	17,658,290	48.0	22.5	43,069
1992	381	16,913,352	48.5	23.2	44,392
1993	349	16,576,802	49.2	24.0	47,498
1994	307	14,799,242	49.8	24.6	48,206
1995	278	13,937,530	50.3	25.3	50,135
1996	239	13,002,556	50.9	25.9	54,404
1997	188	10,817,520	51.1	26.3	57,540
1998	148	8,856,616	51.5	26.8	59,842
1999*	123	7,804,036	51.3	26.6	63,447
2000	97	6,583,342	51.7	27.2	67,870
2001	73	5,238,480	52.6	28.4	71,760
2002	53	3,955,411	53.7	29.4	74,630
2003	24	1,860,356	55.0	30.4	77,515
2004	18	1,429,255	55.2	31.1	79,403

*Payroll used to calculate normal cost for calendar year 1999 is \$7,503,881.

Historical Tables

Comparative Schedule of Inactive Members

As of December 31:	Number of Retirees and Beneficiaries			Actual Annual Benefits	Projected Annual Benefits	Present Value of Benefits
	Added to Rolls	Removed from Rolls	On Valuation Date			
1989	40	31	752	\$12,988,156	\$12,007,149	\$163,236,324
1990	33	33	752	13,179,656	12,579,039	169,649,676
1991	30	25	757	12,726,042	13,152,752	175,237,680
1992	55	28	784	14,764,375	14,352,332	192,504,840
1993	45	33	796	15,646,456	15,690,269	212,051,856
1994	56	40	812	18,040,942	17,238,698	226,104,506
1995	35	39	808	17,597,704	17,375,347	235,698,327
1996	51	28	831	20,240,597	19,435,342	263,685,600
1997	82	35	878	25,513,260	21,662,581	298,497,984
1998	65	23	920	24,511,366	24,020,183	330,745,536
1999	34	37	917	26,213,944	26,701,339	368,568,524
2000	34	37	924	30,697,541	28,043,660	385,062,755
2001	41	34	933	30,503,691	30,398,324	413,026,264
2002	35	40	928	30,724,261	31,446,287	423,583,483
2003	40	31	935	31,855,476	33,194,254	447,163,590
2004	40	31	921	32,797,952	33,527,589	441,779,628

MINNEAPOLIS POLICE RELIEF ASSOCIATION*December 31, 2004 Actuarial Valuation***Summary of Plan Provisions**

1. Normal retirement benefit
Annual benefit of 30.40/80 of base pay for first 19 years of service. An additional 3.60/80 unit is awarded for the 20th year of service. For service years in excess of 20, an additional 1.60/80 is granted; to a maximum of 25 years of service and 42/80 of base pay. "Base pay" for this purpose means the maximum monthly salary of a first class patrolman. Members must be at least age 50 with 5 years of service to receive this benefit.
2. Deferred vested benefit
Annual benefit equal to the accrued normal retirement benefit, deferred to age 50 for members with at least 5 years of service.
3. Disability benefit
Annual benefit of 34/80 of base pay for members no longer able to perform the duties of a policeman due to disability.
4. Surviving spouse's benefit
Annual benefit of 22/80 of base pay for the surviving spouse of an active or retired member.
5. Surviving children's benefit
Annual benefit of 8/80 of base pay for each surviving child of an active or retired member. Benefits continue to age 18, or to age 22 if the child is a full-time student. The total benefit for surviving children and spouse combined is limited to 41/80 of base pay.
6. Member contributions
Members are required to contribute 8% of base pay. After 25 years of service, member contributions are paid to a separate health insurance account. In the event of death without survivorship, member contributions are refundable including 5% interest from the month the contribution is made. Termination after 5 years of service but before benefit eligibility results in a \$500 refund, plus an additional \$100 for each full year of service over 5 years.