

THE *Wyatt* COMPANY

ACTUARIES AND CONSULTANTS

EMPLOYEE BENEFITS
COMPENSATION PROGRAMS
EMPLOYEE COMMUNICATIONS
ADMINISTRATIVE SYSTEMS
RISK MANAGEMENT
INTERNATIONAL SERVICES

SUITE 1525
8400 NORMANDALE LAKE BOULEVARD
MINNEAPOLIS, MINNESOTA 55437
(612) 921-8700

OFFICES IN PRINCIPAL CITIES
AROUND THE WORLD

September 11, 1987

PERSONAL AND CONFIDENTIAL

Ms. Zona DeWitt
State Documents
Legislative Reference Library
645 State Office Building
St. Paul, Minnesota 55155

Re: Buhl Police Relief Association
Consolidation

Dear Ms. DeWitt:

Enclosed are two copies of the Buhl Police Relief Association Actuarial Calculations Preliminary to Consolidation report dated September 11, 1987.

Very truly yours,

Robert E. Perkins

Robert E. Perkins *J.H.*
Consulting Actuary

REP/sh
Enc.

Pursuant to MS 69.77

BUHL POLICE RELIEF ASSOCIATION

**ACTUARIAL CALCULATIONS PRELIMINARY
TO CONSOLIDATION**

THE *Wyatt* COMPANY

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OFFICES IN PRINCIPAL CITIES
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September 11, 1987

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

RE: BUHL POLICE RELIEF ASSOCIATION

Commission Members:

We have performed actuarial calculations for the Relief Association as of July 1, 1987 based on membership and financial data supplied by the Relief Association.

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
Nellie Johnson, Acting Commissioner of Finance
James Noble, Legislative Auditor
Anthony Devich, Secretary of Buhl Police Relief Association
Donna Urdahl, City Clerk, City of Buhl

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, 1986, prepared by Hewitt Associates. Since the Relief Association benefits are identical for columns 1 and 2, 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 differences 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). Assets transferred to MPRIF are combined

with the MPRIIF assets of P&F for determining future mortality gains and losses. Any future gains (or losses) on benefit recipients receiving P&F benefits will be received (or paid for) by P&F. The current amount to be transferred if the surviving spouse who is receiving benefits elects P&F benefits is \$117,401, which is less than the current market value of assets.

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 \$9,556, 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.

BUHL POLICE RELIEF ASSOCIATION
ACTUARIAL CALCULATIONS

TABLE 1

| | <u>Prior Valuation</u> | <u>Election Of Benefits Under The Consolidation</u> | | |
|--|----------------------------------|---|--------------------------------------|---------------------------------------|
| | <u>Relief Association</u> (1) | <u>All Elect Relief Association</u> (2) | <u>All Elect PERA P&F</u> (3) | <u>All Elect Greater Value</u> (4) |
| Date of Calculations | 12/31/86 | 7/1/87 | 7/1/87 | 7/1/87 |
| Actuarial Present Value of Projected Benefits | \$ NA | \$695,725 | \$423,543 | \$718,365 |
| Actuarial Accrued Liability | 764,800 | 651,926 | 387,532 | 674,566 |
| Normal Cost | 20,976 | 14,522 | 7,882 | 14,522 |
| <u>Determination of Municipality Contributions (Before Adjustment For State Aid)</u> | | | | |
| 1. Actuarial Present Value of Projected Benefits | \$ NA | \$695,725 | \$423,543 | \$718,365 |
| 2. Present Value of Future Member Contributions | NA | 10,850 | 17,721 | 10,850 |
| 3. Present Value of Future Regular Municipal Contributions | NA | 16,275 | 26,581 | 16,275 |
| 4. Market Value of Assets | 561,942 | 588,322 * | 588,322 * | 588,322 * |
| 5. Unfunded Amount to be Amortized (1-2-3-4) | 272,839 ** | 80,278 | (209,081) | 102,918 |
| 6. Additional Municipal Contribution (5 amortized by 2010) | 21,671 | 7,454 | (19,413) | 9,556 |
| 7. Regular Municipal Contribution | 20,976 *** | 5,910 | 5,910 | 5,910 |
| 8. Total Municipal Contribution (6+7) | 42,647 | 13,364 | (13,503) | 15,466 |

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

** Based on the Actuarial Accrued Liability less the Current Assets of \$491,961.

*** Equals the Employer Normal Cost.

BUHL POLICE RELIEF ASSOCIATION
DATA AND ASSUMPTIONS

TABLE 2

| | <u>Prior Valuation</u> | <u>Consolidation Calculation</u> | |
|-----------------------------------|-------------------------------|-------------------------------------|-------------------------------|
| | <u>Relief Association</u> | <u>All Elect Relief Association</u> | <u>All Elect PERA P&F</u> |
| | (1) | (2) | (3) |
| Number in Plan | | | |
| Active Members | 2 | 2 | 2 |
| Deferred Former Members | 0 | 0 | 0 |
| Retired Members and Beneficiaries | 1 | 1 | 1 |
| Member Contribution | | | |
| Percentage | 8.0% | 8.0% | 8.0% |
| Compensation Base | \$48,336 | 49,250 | 49,250 |
| Contribution | \$3,867 | 3,940 | 3,940 |
| Municipal Contribution | | | |
| Percentage | NA | 12.0% | 12.0% |
| Compensation Base | NA | 49,250 | 49,250 |
| Contribution | NA | 5,910 | 5,910 |
| 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% | 3.5% | NA |
| Retirement Age/Service | 58/20 | 58/20 | 60/5 |
| Other Assumptions | per Relief Association Report | per PERA P&F Report | per PERA P&F Report |