

Saint Paul

Police Relief Association (PENSIONS)

100 East Eleventh Street • St. Paul, Minnesota 55101 • Founded 1903

March 21, 1991

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SF1212

Senator Gene Waldorf
Chairman, Senate Government Operations Committee
Room 317
State Capitol
St. Paul, MN 55155

Representative Richard O'Connor
Chairman, House Government Operations
Committee Division on Government
Restructuring
593 State Office Building
St. Paul, MN 55155

RE: St. Paul Police Pension Refinancing and Investment
Earnings Legislation

Dear Senator Waldorf and Representative O'Connor:

Thank you for agreeing to carry the St. Paul Pension Refinancing and Investment Earnings Legislation. We submit this letter and related exhibits as supporting documentation for the legislation. Exhibit 1 is a summary of the bill. Exhibit 2 is a copy of the legislation.

To fully comprehend the legislation an understanding of the source of income to the pension fund is critical. Exhibit 3 breaks down the contributions to the fund from 1980 to 1990.

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• INTERNATIONAL FOUNDATION OF EMPLOYEE BENEFIT PLANS
• GOVERNMENT FINANCE OFFICERS ASSOCIATION

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In that eleven-year period, investment earnings accounted for over \$71,600,000 of income to the fund. Member contributions accounted for \$12,250,000. City and state contributions accounted for a total of \$69,900,000. During the same period of time assets of the fund grew from \$24,000,000 to \$119,000,000. (See Exhibit 4) This 500% increase in assets greatly changed the prospect of fully funding the pension obligation. The more rapidly the fund builds assets, the sooner the fund becomes 100% funded.

As the assets of the fund have grown, the investment earnings have become a bigger component in annual income to the fund and in funding the pension obligation. Local relief associations are unlike the major statewide plans in that all of the assets of the fund and the earnings on those assets remain in the pension fund. Assets are not separated between active members and retired members. This commingling of assets leads to a situation where previously funded pension obligations remain the property of the fund. This accumulation of assets assists in the future funding of the plan. In many ways past contributions and earnings on those past contributions are paying for future pension obligations.

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In a decade like the 1980s where investment rates of return were very high, this pooling of assets resulted in significant funding gains. These gains were made based on the earnings of the existing assets of the fund. From 1980 to 1990, the police fund had an average annual time weighted return of 11.925%. (See Exhibit 5.) From 1981 to 1990 the average increase in police officer salaries was 6.5%. (See Exhibit 6.) This represents a real rate of return of 5.4%. The laws governing the funding of the pension fund assumed that the fund would have a real rate of return of 1.5%. In 1980 the fund was 22.1% funded with a full funding date of 2010. Had the fund made steady progress toward full funding it would have been 48.5% funded in 1989. The greater than anticipated investment gains of the 1980s resulted in the pension fund going from 22.1% funded in 1980 to 63.9% funded in 1989. These gains have placed the fund well ahead of schedule to full funding by the year 2010. If the trend of the last 10 years continues, we anticipate that our fund will be fully funded far ahead of schedule.

- In 1989 the Legislature recognized that a similar situation with the Minneapolis Police and Fire Funds should be reanalyzed and readjusted. In 1989 the Minneapolis Police and

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Fire Pension Funds sought and received approval for legislation which addressed both the future funding of those pension plans and the payment of benefits to retirees.

The results of the 1989 Minneapolis legislation have been successful for the city, state and members. After reviewing the results of that 1989 legislation and our own Police Pension Fund's situation, our board of trustees now recommends that similar legislation be passed for St. Paul.

PENSION REFINANCING PARTS OF THE LEGISLATION:

Sections 1 to 6 of H.F. 886 deal with the refinancing of the pension fund. Those changes would:

1. Provide the city with flexibility in using state insurance aid;
2. Change the salary and interest assumptions of the fund;
3. Recognize the true market value of assets; and

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4. Provides for the amortization of administrative expenses of the fund.

These changes have general acceptance. The change in interest assumptions from 3.5% to 4.0% for salary and from 5% to 6% for interest results in a spread of 2% between the salary and interest assumptions. This change is consistent with other State of Minnesota pension plans and other plans throughout the country. (See Exhibit 7, PERS Study.)

These financing changes would result in a significant reduction in the total employer cost. Gabriel, Roeder, Smith & Co., actuary for the Police Fund, estimates that the change in the salary and interest investment assumptions alone will result in a reduction of \$1,154,429 in employer costs in the first year the changed assumptions are in effect. In addition, change in the treatment of the administrative costs of the fund will reduce the required employer contribution by another \$423,353. Combined, the employer contribution would be reduced by \$1,577,782 for just the Police Fund. (See Exhibit 8.)

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A 1989 study prepared by the Department of Finance indicated the employer contribution would be \$1,925,000 less for

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both Police and Fire Funds because of changes in the salary, interest and asset recognition features of the legislation. (See Exhibit 9.) In 1990 we estimate that the administrative expenses of the two funds will be \$800,000. Hence, the legislation applied to both funds could save \$2,725,000 in employer contributions in 1992. Later in the legislative session we anticipate having a more detailed 20-year projection of future savings of the legislation. If a relative comparison to the Minneapolis experience is accurate, we believe we can demonstrate substantial long-term savings in employer costs. In short, we believe Sections 1 to 6 make good sense for the city and state and would not impair the financial integrity of the fund.

INVESTMENT EARNINGS PARTS OF LEGISLATION:

The legislation also contains a provision to provide that retirees receive a share of the "excess investment earnings" of the fund. As discussed earlier, from 1980 to 1990 the fund had a real rate of return of 5.4%. These earnings were nearly 3% greater than anticipated. Our belief is that members should share, in some part, in those gains. Sections 6 and 7 of the legislation would provide for a benefit to retirees in years

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when the five-year average of investment earnings exceeds by 2% the five-year average of salary increases.

From 1986 to 1990 salaries increased 6.57% and investment earnings were 10.172%. Because the spread between salary and earnings is greater than 2% the legislation would define 1% of the assets of the fund as "excess investment earnings". Those earnings would be applied as follows:

1. The first .5% of fund assets would be used to pay a benefit of not more than a one month check to all recipient beneficiaries; and
2. The next .5% of fund assets would be used to reduce the following year's state general fund payment.

If excess investment income is earned, the state would realize savings of \$1,000,000 per year in general fund appropriations in 1991 and cash year beyond. Retirees would receive benefits in a like amount. Earnings beyond the 1% excess investment earnings would stay in the pension fund and accrue to the benefit of the city.

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We believe a five-year average method to determine the state aid reduction and retiree benefit is appropriate because:

- A. It ensures the integrity of the fund while not tying the additional benefit to short-term changes in the market.
- B. It provides a self-correcting mechanism for state contributions so as to not fully fund the pension fund well in advance of the year 2010.
- C. This benefit increase will not result in an actuarial cost to the city or state.
- D. It ensures that fluctuations in rate of return will be evened out so as to reflect true fund performance.

LOCAL APPROVAL:

Section 8 of the bill provides for local approval by the St. Paul City Council of all sections of the file.

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If you have any questions, please feel free to call.

Very truly yours,

Michael Schwab

Michael Schwab

cc: Pension Commission Members
St. Paul Delegation
Mayor Schiebel
St. Paul City Council

5453Y

SUMMARY OF H.F. 886 ST. PAUL
PENSION REFINANCING AND
INVESTMENT EARNING BILL

PROVIDES FOR THE RECOMPUTATION OF THE EMPLOYER'S CONTRIBUTION TO THE PENSION FUNDS IN THE FOLLOWING MANNER:

1. Provides cities with more flexibility in allocating state insurance premium tax and surtax revenues. (Sections 1 and 4).
2. Changes the assumptions used to calculate the pension fund liabilities by increasing the salary assumption from 3.5% to 4.0% and increasing the interest earnings assumption from 5.0% to 6.0%. (Section 3)
3. Changes the method of valuing assets of the fund by more accurately recognizing the true market value of assets thereby reducing the unfunded liability of the pension funds. (Section 3).
4. Provides that upon the death of the last recipient beneficiary the assets of the pension funds reverts to the city for police and firefighting purposes. (Section 5).
5. Provides that the expenses for investment advice and other expenses be amortized over a period of years rather than levied on an annual basis (Section 2).

SECTIONS 6 AND 7 PROVIDE FOR A BENEFIT TO RETIRED POLICE OFFICERS, FIREFIGHTERS, SURVIVING SPOUSES, DEPENDENTS AND OTHER RECIPIENT BENEFICIARIES IN YEARS WHEN:

The five-year average of investment earnings exceeds by 2% the five-year average increase in salaries.

The benefit is further limited to no more than the equivalent of one month's check or .5 percent of the assets of the funds, whichever is less.

SECTION 7 ALSO PROVIDES FOR A REDUCTION IN STATE GENERAL FUND AID* BASED ON INVESTMENT EARNINGS

Section 8 provides for (local approval by the St. Paul City Council and) an effective date and which makes the bill applicable to 1990 investment performance.

2800Y

** 1 year requirement added*
** Pro rated toward full funding requirement added*

EXHIBIT 2

03/12/91

[REVISOR] XX/KS 91-2131

Introduced by O'Connor, Hausman, R. Johnson,
Reding, Osthoff
March 18, 1991
Referred to Committee on GOVERNMENTAL OPERATIONS

H.F. No. 886

Companion S.F. No. _____

Reproduced by PHILLIPS LEGISLATIVE SERVICE

A bill for an act

relating to retirement; authorizing investment related
postretirement adjustments for eligible members of the
St. Paul police and firefighters relief associations;
amending Minnesota Statutes 1990, sections 69.031,
subdivision 5; 69.77, subdivision 2b; 356.216; and
423A.01, subdivision 2; and Laws 1989, chapter 319,
article 19, sections 6 and 7, subdivisions 1, and 4,
as amended.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 1990, section 69.031,
subdivision 5, is amended to read:

Subd. 5. [DEPOSIT OF STATE AID.] (1) The municipal
treasurer, on receiving the fire state aid, shall within 30 days
after receipt transmit it to the treasurer of the duly
incorporated firefighters' relief association if there is one
organized and the association has filed a financial report with
the municipality; but if there is no relief association
organized, or if any association dissolve, be removed, or has
heretofore dissolved, or has been removed as trustees of state
aid, then the treasurer of the municipality shall keep the money
in the municipal treasury as provided for in section 424A.08 and
shall be disbursed only for the purposes and in the manner set
forth in that section.

(2) The municipal treasurer, upon receipt of the police
state aid, shall disburse the police state aid in the following
manner:

1 the appropriate portion of the total police state aid to apply
2 toward the employer contribution of the city to the public
3 employees police and fire fund based on the covered salary of
4 police officers covered by the fund each payroll period and to
5 transmit the balance to the police relief association.

6 (3) The county treasurer, upon receipt of the police state
7 aid for the county, shall apply the total state aid toward the
8 county's employer contribution to the public employees police
9 and fire fund pursuant to section 353.65, subdivision 3, and any
10 state aid in excess of the amount required to meet the
11 employer's contribution pursuant to section 353.65, subdivision
12 3, shall be deposited in the public employees insurance reserve
13 holding account of the public employees retirement association.

14 Sec. 2. Minnesota Statutes 1990, section 69.77,
15 subdivision 2b, is amended to read:

16 Subd. 2b. [RELIEF ASSOCIATION FINANCIAL REQUIREMENTS;
17 MINIMUM MUNICIPAL OBLIGATION.] The officers of the relief
18 association shall determine the financial requirements of the
19 relief association and minimum obligation of the municipality
20 for the following calendar year in accordance with the
21 requirements of this subdivision. The financial requirements of
22 the relief association and the minimum obligation of the
23 municipality shall be determined on or before the submission
24 date established by the municipality pursuant to subdivision 2c.

25 The financial requirements of the relief association for
26 the following calendar year shall be based on the most recent
27 actuarial valuation or survey of the special fund of the
28 association if more than one fund is maintained by the
29 association, or of the association, if only one fund is
30 maintained, prepared in accordance with sections 356.215,
31 subdivisions 4 to 4k and 356.216, as required pursuant to
32 subdivision 2h. If an actuarial estimate is prepared by the
33 actuary of the relief association as part of obtaining a
34 modification of the benefit plan of the relief association and
35 the modification is implemented, the actuarial estimate shall be
36 used in calculating the financial requirements of the relief

1 specified in section 356.215, subdivision 4d. The amortization
2 date specified in this clause shall apply to all local police or
3 salaried firefighters' relief associations and shall supersede
4 any amortization date specified in any applicable special law.

5 The minimum obligation of the municipality shall be an
6 amount equal to the financial requirements of the relief
7 association reduced by the estimated amount of member
8 contributions from covered salary anticipated for the following
9 calendar year and the estimated amounts anticipated for the
10 following calendar year from the applicable state aid program
11 established pursuant to sections 69.011 to 69.051 receivable by
12 the relief association after any allocation made pursuant to
13 section 69.031, subdivision 5, clause (2), subclause (c) or
14 423A.01, subdivision 2, clause (6), from the local police and
15 salaried firefighters' relief association amortization aid
16 program established pursuant to section 423A.02 and from the
17 supplementary amortization state-aid program established under
18 Laws 1984, chapter 564, section 48, and Laws 1985, chapter 261,
19 section 17.

20 Sec. 3. Minnesota Statutes 1990, section 356.216, is
21 amended to read:

22 356.216 [CONTENTS OF ACTUARIAL VALUATIONS FOR LOCAL POLICE
23 AND FIRE FUNDS.]

24 (a) The provisions of section 356.215 governing the
25 contents of actuarial valuations shall apply to any local police
26 or fire pension fund or relief association required to make an
27 actuarial report under this section except as follows:

28 (1) in calculating normal cost and other requirements, if
29 required to be expressed as a level percentage of covered
30 payroll, the salaries used in computing covered payroll shall be
31 the maximum rate of salary from which retirement and
32 survivorship credits and amounts of benefits are determined and
33 from which any member contributions are calculated and deducted;

34 (2) in lieu of the amortization date specified in section
35 356.215, subdivision 4g, the appropriate amortization target
36 date specified in section 69.77, subdivision 2b, or 69.773,

1 actuarial valuation covers.

2 (b) For a relief association in a city of the first class
3 with a population of more than ~~300,000~~ 200,000, the following
4 provisions additionally apply:

5 (1) in calculating the actuarial balance sheet, unfunded
6 actuarial accrued liability, and amortization contribution of
7 the relief association, "current assets" means the value of all
8 assets at cost, including realized capital gains and losses,
9 plus or minus, whichever applies, the average value of total
10 unrealized capital gains or losses for the most recent
11 three-year period ending with the end of the plan year
12 immediately preceding the actuarial valuation report
13 transmission date; and

14 (2) in calculating the applicable portions of the actuarial
15 valuation, an annual preretirement interest assumption of six
16 percent, an annual postretirement interest assumption of six
17 percent, and an annual salary increase assumption of four
18 percent must be used.

19 Sec. 4. Minnesota Statutes 1990, section 423A.01,
20 subdivision 2, is amended to read:

21 Subd. 2. [OPERATION OF LOCAL RELIEF ASSOCIATION UPON
22 MODIFICATION OF RETIREMENT COVERAGE FOR NEWLY HIRED POLICE
23 OFFICERS AND FIREFIGHTERS.] The following provisions shall
24 govern the operation of a local relief association upon the
25 modification of retirement coverage for newly hired police
26 officers or firefighters:

27 (1) The minimum obligation of a municipality in which the
28 retirement coverage for newly hired police officers or salaried
29 firefighters has been modified pursuant to subdivision 1 with
30 respect to the local relief association shall be determined and
31 governed in accordance with the provisions of sections 69.77,
32 356.215, and 356.216, except that the normal cost calculation
33 for the relief association shall be computed as a percentage of
34 the compensation paid to the active members of the relief
35 association. The compensation paid to persons with retirement
36 coverage modified pursuant to subdivision 1 shall not be

1 obligations of the trust fund are paid, the balance of the
2 assets remaining in the trust fund shall revert to the
3 municipality for expenditure for law enforcement or firefighting
4 purposes, whichever is applicable.

5 (4) The financial requirements of the trust fund and the
6 minimum obligation of the municipality with respect to the trust
7 fund shall be determined in accordance with sections 69.77,
8 356.215, and 356.216 until the unfunded accrued liability of the
9 trust fund is fully amortized in accordance with section 69.77,
10 subdivision 2b. The municipality shall provide in its annual
11 budget for at least the aggregate amount of service pensions,
12 disability benefits, survivorship benefits, and refunds which
13 are projected as payable for the following calendar year, as
14 determined by the board of trustees of the trust fund, less the
15 amount of assets in the trust fund as of the end of the most
16 current calendar year for which figures are available, valued
17 pursuant to section 356.20, subdivision 4, clause (1)(a), if the
18 difference between those two figures is a positive number.

19 (5) In calculating the amount of service pensions and other
20 retirement benefits payable from the local relief association
21 and in calculating the amount of any automatic postretirement
22 increases in those service pensions and retirement benefits
23 based on the salary paid or payable to active members or
24 escalated in any fashion, the salary for use as the base for the
25 service pension or retirement benefit calculation and the
26 postretirement increase calculation for the local relief
27 association shall be the salary for the applicable position as
28 specified in the articles of incorporation or bylaws of the
29 relief association as of the date immediately prior to the
30 effective date of the modification of retirement coverage for
31 newly hired personnel pursuant to subdivision 1, as the
32 applicable salary is reset by the municipality periodically,
33 irrespective of whether retirement coverage for persons holding
34 the applicable position used in calculations is provided by the
35 relief association or by the public employees police and fire
36 fund. If for a local salaried firefighters relief association,

1 amended to read:

2 Sec. 6. [DISPOSITION OF ASSETS UPON CONCLUSION OF BENEFIT
3 PAYMENTS.]

4 Upon the death of the last benefit recipient and the
5 certification by the chief administrative officer of a city of
6 the first class with a population of more than ~~300,000~~ 200,000
7 to the state auditor of the absence of any remaining person with
8 a benefit entitlement, the assets of the relief association or
9 trust fund, whichever applies, must revert to the city and may
10 be used by the city only for law enforcement or firefighting
11 expenditure purposes, whichever applies.

12 Sec. 6. Laws 1989, chapter 319, article 19, section 7,
13 subdivision 1, is amended to read:

14 Subdivision 1. [DEFINITIONS.] For the purposes of this
15 section, each of the terms in this subdivision have the meanings
16 given them in paragraphs (a) to (h).

17 (a) "Annual postretirement payment" means the payment of a
18 lump sum postretirement benefit to an eligible member on June 1
19 following the determination date in any year.

20 (b) "City" means a city of the first class with a
21 population of more than ~~300,000~~ 200,000.

22 (c) "Determination date" means December 31 of each year.

23 (d) "Eligible member" means a person, including a service
24 pensioner, a disability pensioner, a survivor, or dependent of a
25 deceased active member, service pensioner, or disability
26 pensioner, who received a pension or benefit during the 12
27 months before the determination date. A person who received a
28 pension or benefit for the entire 12 months before the
29 determination date are eligible for a full annual postretirement
30 payment. A person who received a pension or benefit for less
31 than 12 months before the determination date is eligible for a
32 prorated annual postretirement payment.

33 (e) "Excess investment income" means the amount by which
34 the average time weighted total rate of return earned by the
35 fund in the most-recent five prior fiscal year years has
36 exceeded the actual average percentage increase in the current

1 payment. The second one-half of one percent of assets which
2 constitute excess investment income in a city of the first class
3 with a population exceeding 300,000 shall be applied to reduce
4 the state amortization state aid or supplementary amortization
5 state aid payments otherwise due to the relief association under
6 section 423A.02 for the current calendar year. The remaining
7 one-half of assets constituting excess investment income in a
8 city of the first class with a population of more than 200,000
9 but less than 300,000 shall likewise be applied to reduce state
10 aid payments otherwise due for the current calendar year. The
11 relief association shall pay an annual postretirement payment to
12 all eligible members in an amount not to exceed one-half of one
13 percent of the assets of the fund. Payment of the annual
14 postretirement payment must be in a lump sum amount on June 1
15 following the determination date in any year. Payment of the
16 annual postretirement payment may be made only if the average
17 time weighted total rate of return exceeds by two percent
18 the ~~actual~~ average percentage increase in the current monthly
19 salary of a top grade patrol officer or a top grade firefighter,
20 whichever applies, in the most-recent five prior fiscal year
21 years and the yearly average percentage increase of the time
22 weighted total rate of return of the fund for the previous five
23 years exceeds by two percent the yearly average percentage
24 increase in monthly salary of a top grade patrol officer or a
25 top grade firefighter, whichever applies, of the previous five
26 years. The total amount of all payments to members may not
27 exceed the amount determined under subdivision 3. Payment to
28 each eligible member must be calculated by dividing the total
29 number of pension units to which eligible members are entitled
30 into the excess investment income available for distribution to
31 members, and then multiplying that result by the number of units
32 to which each eligible member is entitled to determine each
33 eligible member's annual postretirement payment. Payment to
34 each eligible member may not exceed an amount equal to the total
35 monthly benefit that the eligible member was entitled to in the
36 prior year under the terms of the benefit plan of the relief

EXHIBIT 3

Summary of Income to the Police Pension Fund 1980-1990

	<u>CITY</u>	<u>STATE</u>	<u>MEMBERS</u>	<u>INVESTMENTS</u>
1980	3,116,511	1,174,835	727,339	2,836,667
1981	3,109,063	2,148,410	901,459	1,413,310
1982	3,727,795	2,152,291	1,017,862	6,649,455
1983	3,801,031	2,077,266	1,192,739	4,091,172
1984	3,933,342	2,258,763	1,106,255	3,356,015
1985	4,747,368	2,354,827	1,135,965	10,487,562
1986	4,781,441	2,590,917	1,159,272	6,327,287
1987	4,040,396	3,000,311	1,270,802	2,865,465
1988	3,775,320	3,115,864	1,233,538	9,498,117
1989	3,902,741	3,215,424	1,233,875	21,620,452
1990*	<u>3,664,544</u>	<u>3,222,706</u>	<u>1,272,404</u>	<u>2,500,000</u>
TOTAL	42,599,552	27,311,614	12,251,510	71,645,502

Source: State Auditor Reports 1980 - 1989
1990 Figures Unaudited

EXHIBIT 4

Asset Balance of Police Pension Fund

	<u>TOTAL</u>
1980	\$24,055,666
1981	28,337,902
1982	38,039,622
1983	44,839,365
1984	51,130,762
1985	65,190,535
1986	75,129,300
1987	80,841,153
1988	92,716,104
1989	116,099,304
1990	119,000,000

EXHIBIT 5

Time Weighted Total Rate of Return - Police Fund 1980-1990

1980	13.374
1981	5.605
1982	23.499
1983	10.721
1984	7.784
1985	19.323
1986	9.218
1987	4.801
1988	11.594
1989	23.365
1990	1.890

SOURCE: Standard Valuations

DEPARTMENT OF POLICE
CITY OF SAINT PAUL
INTER-OFFICE COMMUNICATION

EXHIBIT 6

TO : Mike Schwab
From: Butch Swintek
Subj: Wages
Date: 10/25/90

Mike I hope this is what you were looking for, be advised I did the figures myself and believe they are correct. Let me know if you need something else.

1981 - 7%
1982 - 7.5%
1983 - 8%
1984 - 6%
1985 - 4.75%
1986 - 4.75%
1987 - 8.5%
1988 - 4.5%
1989 - 4.5%
1990 - 4%> with insurance 9.6%
1991 - 4% " " " " 5.85%

CHART VI**EXHIBIT 7**ACTUARIAL AND ACCOUNTING

<u>State</u>	<u>Fund</u>	<u>Actuarial Method</u>	<u>Interest Assumption</u>	<u>Wage Inflation</u>	<u>Economic Spread</u>	<u>PBO Funding</u>
Alab.	ERS	Entry Age	8 1/4%*	Range	?	102.2%
Alab.	TRS	Entry Age	8 1/4%*	Range	?	102.5%
Alas.	PERS	Unit Credit	9.0%	5.5%	3.5%	91.6%
Alas.	TRS	Unit Credit	9.0%	5.5%	3.5%	95.1%
Ariz.	SRS	Unit Credit	8.0%	5.0%	3.0%	111.3%
Arka.	PERS	Entry Age	7.0%	5.0%	2.0%	128.8%
Arka.	TRS	Entry Age	7.5%	5.5%	2.0%	91.2%
Calif.	PERS	Entry Age	8.5%	7.0%	1.5%	84.7%
Calif.	TRS	Entry Age	8.5%*	6.5%	2.0%	64.0%
Colo.	PERA	Entry Age	7.5%	5.5%	2.0%	100.98%
Conn.	SERS	Entry Age	8.5%	Range	-	-
Conn.	TRS	Entry Age	8.5%	Range	-	58.3%
Dela.	SEPP	Unit Credit	8.0%	5.0%	3.0%	100.2%
Flor.	FRS	Entry Age	8.0%	5.5%	2.5%	64.2%
Geor.	ERS	Entry Age	7.0%	4.5%	2.5%	73.1%
Georg.	TRS	Entry Age	7.0%	Range	-	78.3%
Hawaii	ERS	Entry Age	8.0%	6.5%	1.5%	88.0%
Idaho	PERS	Entry Age	7.95%	6.0%	1.95%	75.9%
Ill.	SERS	Unit Credit	8.0%	6.5%	1.5%	68.8%
Ill.	TRS	Unit Credit	8.0%	4.0%	4.0%	61.0%
Ill.	MRF	Entry Age	7.0%	3.75%	3.25%	84.3%
Ind.	PERF	Entry Age	7.5%	6.5%	1.0%	99.3%
Ind.	TRF	Entry Age	7.5%	5.5%	2.0%	?
Iowa	PERS	?	?	?	?	102.5%
Kans.	PERS	Entry Age	8.0%	5.0%	3.0%	93.0%
Kent.	ERS	Entry Age	8.0%	7.5%	.5%	103.0%
Kent.	TRS	Unit Credit	7.5%	5.0%	2.5%	67.4%
Louis.	SERS	Unit Credit	7.5%	4.0%	3.5%	53.3%
Louis.	TRS	Unit Credit	7.5%	5.0%	2.5%	41.6%
Maine	SRS	Entry Age	8.5%	6.0%	2.5%	31.3%
Mary.	SRS	Entry Age	7.5%	5.0%	2.5%	59.0%
Mass.	SERS	Entry Age	8.0%	4.5%	3.5%	40.2%
Mass.	TRS	Entry Age	8.0%	4.5%	3.5%	42.0%
Mich.	SERS	Entry Age	10.8/8%	5.0%	3.0+%	96.7%
Mich.	MERS	Attained Age	8.0%	5.5%	3.5%	115.0%
Mich.	PSERS	Entry Age	9.8%/8%	5.0%	3.0+%	73.1%
Minn.	MSRS	Entry Age	8.5%	6.5%	2.0%	86.5%
Minn.	PERA	Entry Age	8.5%	6.5%	2.0%	79.0%
Minn.	TRS	Entry Age	8.5%	6.5%	2.0%	82.3%
Miss.	PERS	Entry Age	8.0%	5.0%	3.0%	67.8%
Mou.	SERS	Entry Age	8.0%	5.0%	3.0%	90.7%
Mou.	LAGERS	Entry Age	7.0%	4.0%	3.0%	108.8%
Mou.	PSRS	Entry Age	8.0%	5.9%	2.1%	85.4%
Mont.	PERS	Entry Age	8.0%	6.5%	1.5%	73.1%
Mont.	TRS	Entry Age	8.0%	6.5%	1.5%	56.1%

CHART VIACTUARIAL AND ACCOUNTING

<u>State</u>	<u>Fund</u>	<u>Actuarial Method</u>	<u>Interest Assumption</u>	<u>Wage Inflation</u>	<u>Economic Spread</u>	<u>PBO Funding</u>
Nebra.	SERS	Entry Age	Money Purchase			N.A.
Nebra.	SRS	Entry Age	8.5%	Range	-	77.8%
Nevada	PERS	Entry Age	8.0%	6.5%	1.5%	67.0%
N.H.	NHRS	Projected Benefit	8.0%	4.5%	3.5%	99.5%
N.J.	PERS	Projected Benefit	6.5%	Range	-	79.4%
N.J.	TRS	Projected Benefit	6.5%	Range	-	79.4%
N.M.	PERA	Entry Age	8.0%	5.0%	3.0%	74.5%
N.M.	ERA	Entry Age	7.0%	4.0%	3.0%	74.5%
N.Y.	ERS	Aggregate Cost	8.75%	5.0%	3.75%	105.8%
N.Y.	TRS	Aggregate Cost	7.5%	6.75%	.75%	97.7%
N.C.	TSERS	Entry Age	7.5%	7.5%	zero	98.0%
N.C.	LGERS	Entry Age	7.5%	-	-	108.0%
N.D.	PERS	Entry Age	8.0%	5.0%	3.0%	113.0%
N.D.	TRF	Entry Age	8.0%	5.0%	3.0%	86.9%
Ohio	PERS	Entry Age	7.5%	5.5%	2.0%	73.0%
Ohio	STRS	Entry Age	7.75%	5.875%	1.875%	74.6%
Okla.	PERS	Entry Age	7.5%	6.0%	1.5%	80.0%
Okla.	TRS	Entry Age	7.5%	5.0%	2.5%	54.1%
Oreg.	PERS	Entry Age	7.5%	6.0%	1.5%	93.0%
Penn.	SERS	Entry Age	9.8%-	4.0%	5.8-%	111.47%
Penn.	PSERS	Entry Age	5.5%	Range	-	68.8%
R.I.	ERS	Entry Age	7.5%	4.0%	3.5%	54.4%
S.C.	SCRS	Entry Age	8.0%	4.5%	3.5%	70.2%
S.D.	SRS	Entry Age	7.0%	5.5%	1.5%	103.9%
Tenn.	CRS	Entry Age	8.5%	8.0%	0.5%	99.6%
Texas	ERS	Entry Age	8.5%	6.25%	2.25%	105.0%
Texas	TRS	Entry Age	8.0%	6.5%	1.5%	79.9%
Texas	MRS	Unit Credit	8.5%	6.0%	2.5%	79.0%
Utah	SRS	Entry Age	7.5%	5.75%	1.75%	90.2%
Verm.	SRS	Entry Age	8.5%	5.5%	3.0%	75.2%
Verm.	TRS	Projected Benefit	8.5%	5.5%	3.0%	85.8%
Virg.	SRS	Entry Age	8.0%	4.5%	3.5%	53.2%
Wash.	PERS	Aggregate Cost	7.0%	5.25%	1.75%	83.0%
Wash.	TRS	Aggregate Cost	7.0%	5.25%	1.75%	61.0%
W.V.	PERS	Attained Age	7.5%	Range	-	103.0%
W.V.	TRS	Attained Age	-	-	-	-
Wyom.	WRS	Entry Age	8.0%	4.5%	3.5%	99.9%
Milw.	City	Entry Age	8.0%	7.0%	1.0%	118.0%
Milw.	County	Entry Age	8.0%	Range	-	113.9%
Wis.	WRS	Entry Age	7.8%	5.6%	2.2%	99.7%

EXHIBIT 8

GABRIEL, ROEDER, SMITH & COMPANY
Actuaries & Consultants

101 N. Main Street • Suite 440 • Ann Arbor, Michigan 48104 • 313-665-4620

BAX • 313-665-5480

Detroit • 313-961-3346

March 19, 1991

Mr. Michael G. Schwab, President
-- St. Paul Police Relief Association
-- 100 East Eleventh Street
St. Paul, Minnesota 55101

Re: Changes in economic assumptions

Dear Mr. Schwab:

The basic equation for retirement plan financing is $C + I = B + E$, where;

C = Contributions
I = Investment Income
B = Benefits Paid
E = Expenses for Administration

In essence, actuarial valuations may be thought of as being part of a budgetary process with the objective of equitably associating "C" with the periods in which benefits are earned. The current amount of "C" is determined on the basis of assumptions about future "I, B, and E", and can be dramatically influenced by changes in those assumptions.

Current Minnesota law requires that we assume 5% for "I" and that "B" will be based on pay which increases 3.5% per year until retirement, with continued increases in "B" of 3.5% per year after retirement. As you requested, we have prepared alternate valuation results which illustrate the immediate effect of increasing "I" to 6% (+1.0%) and the pay basis for "B" to 4% (+0.5%). As you would suspect from looking at the financing equation above, if the increase in "I" is greater than the increase in "B", it will produce a decrease in "C".

Both pay rates and investment return are significantly influenced by an unpredictable element -- INFLATION. Consequently, the extent to which economic assumptions presently in use are proper can only be determined by future events. As you will note from reviewing the enclosed schedule, the alternate assumptions being examined result in a material reduction in current computed contributions. The unanswerable question is whether or not they would produce a more equitable pattern of future contributions.

Sincerely,


J. Daniel Petersen

JDP:ct
Enclosure

St. Paul Police Relief Association
Effect of Changing Economic Assumptions

	<u>Current Plan</u> 3.5%/5.0%	<u>Proposed Plan</u> 4.0%/6.0%	<u>Change</u>
Total Normal Cost	23.70%	20.57%	(3.13)%
Member Contributions	<u>8.00</u>	<u>8.00</u>	<u>0.00</u>
Employer Normal Cost	15.70%	12.57%	(3.13)%
Employer Normal Cost Dollars	\$2,585,355	\$2,069,931	\$(\$15,424)

Active Accrued Liability	\$ 83,179,050	\$ 75,699,933	\$ (7,479,117)
Retired Accrued Liability	<u>99,114,996</u>	<u>94,102,068</u>	<u>(5,012,928)</u>
Total Accrued Liability	182,294,046	169,802,001	(12,492,045)
Valuation Assets	<u>116,547,392</u>	<u>116,547,392</u>	<u>0</u>
Unfunded Accrued Liability	\$ 65,746,654	\$ 53,254,609	\$ (12,492,045)
Percent Funded	63.9%	68.6%	4.7%
Amortization Payment	<u>\$ 5,148,028</u>	<u>\$ 4,509,023</u>	<u>\$ (639,005)</u>
Total Computed Contributions	\$ 7,733,383	\$ 6,578,954	\$ (1,154,429)

Comments regarding other aspects of 13th check legislation.

1. The actuarial value of assets has historically been the market value of investments because the book value has not been readily available. Accordingly, additional data would need to be provided to allow us to determine valuation asset values using the method presently in use for Minneapolis Police and Fire.
2. These cost figures do not reflect the annual cost of administration (\$423,353 in 1990) which currently are added by the city directly to its tax levy rather than amortized over a period of future years.

Estimated Cost Changes from Use of Alternative Interest and Salary Assumptions for Paid Police and Fire Relief Associations
& Assets Estimated at Market Value (Single Fire/Police actuals/other at 1.05 current)
Current Assumptions

Interest
Asset Tax
0.05
2010

Association	Accrued Liability	Assets	Payroll	Benefits	Normal Cost	Unfunded Liability	Asset Payroll	Normal Cost	Total Cost	Retiree Liability	Active Liability
Albert Lea Police	4,591,718	4,171,169	549,154	213,621	25,263	2,426,549	179,452	130,716	310,168	3,221,174	3,267,544
Amelia Police	2,015,877	1,962,433	99,741	140,837	25,062	912,472	67,710	24,755	82,713	2,125,640	2,090,229
Amelia Police	10,231,749	9,297,797	415,028	370,910	22,312	4,832,552	250,374	124,254	432,720	7,200,600	7,022,061
Birmingham Police	22,644,474	21,767,366	2,337,730	376,770	22,971	936,940	65,459	370,746	846,206	3,686,070	16,557,596
Brainerd Police	3,542,323	3,646,353	209,079	169,152	24,401	1,692,770	125,371	51,013	176,384	2,552,003	2,075,320
Chickasha Police	1,650,320	1,683,002	32,073	36,699	16,001	175,926	13,043	3,424	10,466	855,756	203,172
Columbia Heights Pol	3,831,372	2,179,117	164,260	163,209	24,732	1,692,753	125,450	52,754	170,213	2,436,310	1,325,162
Greentown Police	1,464,235	1,162,552	190,000	43,414	22,791	201,783	27,336	42,720	65,056	1,552,246	800,969
Crystal Police	6,475,257	4,542,436	267,400	240,942	24,954	1,532,921	113,646	91,400	205,324	4,790,336	1,677,021
Fairmont Police	3,660,790	2,453,533	224,791	117,507	27,311	1,204,765	87,217	40,243	127,560	1,772,529	1,086,769
Fairport Police	3,726,790	2,000,203	549,056	144,204	19,611	1,310,007	97,719	107,470	204,309	2,206,632	1,319,620
Friday Police	3,017,322	4,006,562	623,176	190,453	26,490	1,264,960	100,097	122,672	224,319	2,729,699	3,117,023
Hibbing Police	4,546,326	1,703,049	620,615	191,770	20,318	2,763,407	204,876	120,054	320,130	2,006,932	1,639,204
Hokate Police	9,473,010	4,091,324	379,490	477,176	27,628	4,604,204	341,347	104,813	446,162	7,140,700	2,354,050
Minneapolis Police	200,554,955	153,206,992	18,629,309	10,629,309	29,435	125,247,963	10,026,054	3,702,476	13,009,320	156,717,022	121,027,533
New Ole Police	3,650,783	2,140,106	231,136	87,414	26,821	910,677	60,100	67,371	125,479	1,313,709	1,730,994
Red Wing Police	6,321,000	3,069,216	276,376	152,174	37,471	2,362,572	109,901	103,520	293,371	2,913,560	2,516,320
Richfield Police	9,794,903	6,060,710	879,021	320,743	23,321	3,626,075	193,725	273,126	423,061	5,112,626	4,302,263
Rockstar Police	21,504,313	12,402,656	2,067,151	870,362	20,061	3,301,657	704,423	431,200	1,123,630	13,179,362	8,811,951
South St. Paul Pol	10,017,773	3,536,231	379,100	474,129	26,422	4,261,544	323,351	133,000	476,351	7,156,163	2,061,612
St. Cloud Police	10,206,404	3,263,603	335,224	204,795	24,412	4,420,001	227,750	202,614	320,614	3,064,069	4,510,615
St. Louis Park Pol	12,740,610	3,419,000	1,160,560	294,200	25,722	3,320,002	246,707	294,711	341,490	7,200,509	3,540,101
St. Paul Police	104,010,664	80,066,662	15,063,500	3,363,215	22,263	63,532,002	4,741,190	2,331,223	8,272,431	82,963,009	60,032,755
Virginia Police	4,044,960	2,437,075	427,607	167,901	22,764	507,043	42,523	101,610	145,142	2,534,124	1,510,036
West St. Paul Pol	4,100,534	3,761,025	616,000	404,252	25,722	3,707,509	25,763	150,436	104,219	1,771,612	2,036,912
Winnipeg Police	9,062,311	2,777,010	630,000	442,643	23,020	3,705,752	420,903	609,254	6,081,379	2,300,912	3,382,516
Albert Lea Fire	7,729,417	3,269,063	303,002	251,267	33,676	2,470,354	102,144	169,630	252,774	3,793,073	3,943,544
Amelia Fire	4,173,944	4,170,913	491,002	373,919	20,372	4,305,021	319,161	179,405	450,566	3,643,546	2,032,590
Columbia Heights	2,629,067	1,100,670	31,113	123,123	20,704	1,321,197	112,777	9,377	127,353	2,003,721	620,446
Greentown	825,154	670,404	194,100	20,025	10,772	160,490	11,312	36,440	40,250	503,904	253,170
Amelia	42,410,466	11,943,353	2,361,342	2,003,170	22,991	20,473,111	2,259,320	772,773	2,032,100	31,471,210	10,917,060
Fairmont	3,630,021	2,670,419	334,416	236,051	26,352	2,160,402	234,307	90,125	324,427	2,574,704	2,256,037
Hibbing	3,497,726	1,617,944	619,437	336,600	10,701	2,079,792	207,435	115,030	462,474	2,436,720	2,000,790
Hokate	8,630,902	2,711,604	210,112	471,437	20,201	4,007,790	400,940	44,232	525,181	7,650,704	1,040,490
Minneapolis	150,022,604	90,910,727	16,434,311	8,327,929	27,191	112,111,957	8,311,624	3,923,520	12,235,552	125,044,324	87,170,160
Red Wing	4,067,626	2,374,202	463,047	119,071	20,526	1,293,316	102,307	131,776	225,070	1,009,311	2,320,163
Richfield	8,779,412	4,630,370	400,436	207,079	20,011	3,941,042	272,176	117,743	407,927	5,072,256	2,907,056
Rockstar	22,602,701	11,642,749	1,017,672	504,425	21,316	11,040,352	810,541	307,346	1,205,002	14,005,254	8,270,447
South St. Paul	3,030,009	2,231,924	373,019	212,152	21,163	2,390,363	172,679	121,211	312,320	2,761,046	2,007,043
St. Cloud	10,562,633	3,000,075	842,600	376,063	27,311	6,474,610	400,000	230,120	710,146	3,577,763	4,304,920
St. Louis Park	8,791,666	4,013,354	637,300	307,373	27,252	3,373,712	265,952	179,114	444,206	6,647,306	3,722,700
St. Paul	100,612,037	66,741,062	12,362,632	6,730,470	22,632	74,371,975	5,313,702	2,717,660	8,311,370	94,036,266	66,376,771
Virginia	4,174,459	1,014,000	87,615	202,727	24,901	2,340,459	174,797	21,016	196,813	4,202,202	1,107,023
West St. Paul	3,041,003	2,351,454	424,944	163,113	26,492	1,007,352	80,761	112,360	193,329	2,330,743	2,379,144
Winnipeg	11,629,900	4,620,020	830,020	462,943	26,471	7,000,070	510,264	221,024	740,700	6,301,143	6,040,764

ALTERNATIVE ASSUMPTIONS

Interest-0.05
Salary-0.05
Assets at Market

Retiree Liability	Active Liability	Total Liability	Assets at Market Value	Unfunded Liability	Asset Payroll	Normal Cost	Total Cost	COST REDUCTION
2,032,650	2,002,615	6,125,074	4,379,727	1,753,346	162,672	120,993	263,665	54,543
2,012,420	2,644,267	1,997,570	646,600	32,362	21,002	74,363	10,250	
6,756,736	2,763,750	3,516,506	3,647,607	2,850,019	313,620	117,222	420,061	61,067
5,304,001	15,522,011	20,906,012	22,792,944	61,006,122	672,371	510,370	221,225	
2,417,025	272,325	2,129,370	1,730,903	1,400,307	114,000	64,497	150,905	17,631
810,179	105,902	916,161	527,152	69,009	5,609	4,791	10,340	0,127
2,363,263	1,222,153	2,365,050	2,746,073	1,327,303	100,063	46,014	154,877	23,325
1,721,100	1,250,009	1,721,100	1,250,009	11,362	37,362	40,674	16,132	
4,140,160	1,530,634	3,670,022	4,763,530	901,264	72,253	100,553	152,007	51,527
1,679,073	1,727,129	3,406,202	2,570,310	827,092	67,290	72,479	100,763	21,791
2,003,120	1,791,061	2,400,189	2,520,613	951,376	37,343	53,913	71,256	24,133
2,304,010	2,054,624	4,320,343	4,710,090	727,452	95,126	107,027	164,535	59,566
2,732,186	1,639,166	4,232,362	1,072,201	2,300,161	152,456	111,650	205,149	27,701
6,744,912	1,163,771	9,000,683	5,123,901	3,772,782	206,646	97,032	47,110	
140,363,012	120,710,302	263,273,314	167,206,992	106,566,002	8,207,679	32,329,915	2,479,415	
1,249,499	1,391,037	2,041,256	2,247,111	594,245	40,799	50,763	107,062	20,416
2,764,700	2,210,003	3,979,093	4,062,702	1,916,310	155,755	90,327	246,002	47,437
4,040,243	4,011,404	8,051,027	7,211,621	1,640,206	133,313	179,052	333,166	90,636
12,473,373	8,096,579	20,326,132	17,106,709	7,279,363	602,017	276,114	579,962	120,649
6,775,034	2,419,430	9,294,324	3,325,043	2,453,401	200,026	132,432	414,300	62,643
5,335,542	4,126,111	5,631,633	6,263,003	3,277,770	270,604	176,727	455,331	75,023
6,774,530	3,041,692	11,016,222	8,090,700	1,325,424	156,496	236,019	412,345	120,151
70,432,499	53,744,432	125,157,932	84,909,953	20,207,957	4,007,379	2,000,063	7,167,332	1,105,071
2,793,159	1,202,004	2,702,163	2,630,790	131,373	12,303	60,635	100,930	41,791
1,701,020	2,536,009	2,000,777	3,943,076	410,793	112,050	120,111	126,157	50,612
6,225,553	2,179,463	8,205,017	2,440,065	3,064,140	411,606	152,715	265,002	60,152
3,311,016	7,202,326	3,322,316	1,671,010	125,017	147,957	202,774	69,000	
3,242,077	2,032,590	4,379,727	4,379,727	3,556,266	209,400	121,314	410,622	47,923
1,902,212	2,070,343	2,070,343	1,164,104	8,206,242	106,163	0,253	114,522	7,031
554,775	231,170	706,324	712,400	74,116	6,474	31,791	37,013	10,544
27,755,264	10,020,035	27,016,079	12,340,373	27,275,576	2,716,310	674,030	2,090,956	141,144
3,063,594	2,063,154	3,440,293	2,003,940	2,645,600	215,031	70,410	292,441	20,706
2,310,506	1,631,693	3,142,199	3,443,257	379,071	101,430	300,909	22,565	
7,207,716	956,152	8,163,900	2,327,104	5,041,724	474,006	20,420	513,434	11,740
119,147,175	61,794,707	180,941,882	83,910,727	96,725,636	7,064,715	4,022,303	11,000,300	251,252
1,713,120	2,707,075	4,421,013	2,542,096	870,016	71,364	116,520	106,363	40,774
3,557,000	2,667,090	8,220,690	3,000,207	3,140,402	253,247	102,702	257,949	51,979
12,630,045	7,370,006	21,216,052	12,224,006	8,991,163	720,700	32	8,064,615	120,242
3,560,737	1,913,621	3,473,750	2,411,310	2,055,220	167,377	103,759	273,131	60,799
3,653,335	4,196,957	8,056,792	4,792,071	3,263,913	452,276	200,774	632,961	57,153
4,706,693	2,407,237	7,120,627	5,056,752	2,771,205	225,146	156,730	201,475	67,725
60,027,932	42,625,904	121,651,697	69,553,115	62,110,704	3,040,770	2,000,723	7,000,533	822,071
4,054,212	(30,700)	2,953,512	1,904,700	2,050,012	166,607	19,620	185,716	11,097
2,300,743	2,360,322	4,661,065	4,431,224	242,432	44,000	90,105	142,773	31,635
6,660,202	4,072,503	10,640,430	6,650,260	6,030,260	630,120	100,002	600,422	37,155

Moves by
HF.

1 _____ moves to amend H. F. No. 886, as follows:

2 Page 11, lines 34, 35 and 36, delete the new language and
3 reinstate the stricken language

4 Page 12, lines 2 and 3, delete the new language and
5 reinstate the stricken language

6 Page 12, line 30, strike "of one percent"

7 Page 13, line 1, strike "of one percent"

8 Page 13, line 9, after "state" insert "amortization or
9 supplementary amortization"

10 Page 13, line 10, after "year" insert "under section
11 423A.02 for the current calendar year"

12 Page 13, lines 16, 18, 20, and 21, delete the new language
13 and reinstate the stricken language

14 Page 14, line 2, after the period, insert:

15 "In addition to the provisions of subdivision 1 and this
16 subdivision that require that the time weighted total rate of
17 return earned by the fund in the most recent fiscal year exceeds
18 by two percent the actual percentage increase in the current
19 monthly salary of a top grade patrol officer or a top grade
20 firefighter in the most recent fiscal year, a relief association
21 in a city of the first class with a population of more than
22 200,000 but less than 300,000 may pay an annual post-retirement
23 payment only if the percent of assets to accrued liability
24 equals or exceeds amounts determined as follows:

1 (1) The relief association shall certify the percent of
2 assets to accrued liability, based on the actuarial valuation
3 for calendar year 1990, and subtract this percent from 100
4 percent.

5 (2) The relief association shall divide the remainder in
6 clause (1) by 19.

7 (3) For calculations made in 1992, the relief association
8 shall add to the base percent in clause (1), the amount
9 calculated under clause (2).

10 (4) For calculations made in every year after 1992, the
11 relief association shall add to the amount from the previous
12 year, the amount calculated under clause (2)."

13 Page 14, line 9, after the period, insert:

14 "Sections 1 to 7 are not severable. However, a resolution
15 by the St. Paul city council granting approval pursuant to
16 section 645.021 may apply sections 1 to 7 to either a police
17 fund or to a fire fund or both."