

**Motion by Hodges (IGR Action 12/4/07: Approved)**

**Amend the 2008 State Legislative Agenda to create a new section called "Pension Sustainability" which would read as follows:**

**The Plan for Sustainable Pensions:**

**Funding and Securing the Police and Fire Relief Associations**

In 1980, the Minneapolis Police Relief Association (MPRA) pension fund and the Minneapolis Firefighters' Relief Association (MFRA) pension fund were "closed" to new members. City employees who would have been eligible for enrollment in those plans were enrolled in the Public Employees Retirement Fund (PERA) from that point on.

The MPRA and MFRA pension plans need to achieve full funding and secure pension benefits without undue burden to Minneapolis taxpayers. **It is time that the City and the Legislature work to address the following problems:**

- 1. Minneapolis taxpayers have an unlimited financial obligation under current law to fund the growing costs of the closed pension funds and the City has no ability to manage or control these costs.** From 2008 to 2010, the anticipated City contribution to the closed funds will grow by 203% to \$14.2 million, not including debt service. This substantial increase from 2010 forward is mostly due to a change in the mortality assumptions calculation for MPRA. In addition to recurring annual costs, debt service payments on the closed pension funds will cost the City \$36.5 million through 2015. The combined City obligation to the closed funds with debt service is \$255.8 million over the next 20 years if no action is taken. Also, it should be noted that the associations which govern the funds are both considering proposals that would further increase the City's costs beyond these projections. *Costs could quickly balloon beyond current projections in this document unless something is done.*
- 2. The City funds the pension plans, but has no voice in the governance of the plans.** In 2008, the City's contribution to MPRA from the tax levy is \$3.6 million with an additional \$2.8 million required for debt service. The City's 2008 contribution to MFRA from the tax levy is \$3.4 million, with an additional \$829,000 in debt service payments. These costs have increased over time under the auspices of the associations which govern the plans and compute the benefit calculations.
- 3. The plans are not fully funded.** Neither fund has been consistently fully funded in spite of the more than 100 years that each fund has been in existence. MFRA was fully funded from 1998-2001; however, poor market performance has produced a negative return on investments, increasing the burden on Minneapolis taxpayers responsible for covering the shortfall. MPRA has never been fully funded. When decisions made by the associations result in losses, the City must fund these losses.
- 4. Benefit calculations are determined by the associations and are not linked to cost of living adjustments commonly used by other funds.** The associations are administered by the members receiving the benefits. No external party validates the calculations, and the associations are the sole arbitrators of any disputes short of legal

action. In effect, the association members have exercised great latitude in setting their own benefit amounts by changing the "unit value" calculations in violation of the 1995 Agreement between the City and the associations, as identified by the State Auditor.

The annual cost of living adjustment for each of these funds is unpredictable, has no limit on the annual adjustment like other public pension plans in Minnesota, and is tied to the pay of a small number of current employees, which can vary widely from year to year.

**The City's sustainability plan includes the following objectives:**

1. **Assure the continuation of retiree base benefits.**
2. **Balance retiree and taxpayer interests.**
3. **Simplify and link the annual cost of living adjustments in a manner consistent with other governmental pension plans.**
4. **Establish a schedule of City contributions to fully fund the plans by 2020.**

**While there may be a number of ways to reach these objectives, the City's sustainability plan includes the following actions that require legislative approval followed by City Council approval:**

1. **Ensure that retirees receive consistent cost of living adjustments.** This could be achieved by replacing the annual change in unit value with a cost of living adjustment equal to or comparable with what other police and fire retirees in Minnesota receive.
2. **Change the structure of governance for the closed funds.** To achieve this, the current administrative structure should be replaced with the Public Employee Retirement Association (PERA) and all of the funds' assets should be managed by the State Board of Investment (SBI).
3. **Commit the City to a fixed annual contribution that fully funds each plan no later than 2020.** The City's funding commitment will begin when the sustainability plan is approved by the legislature, agreement is reached on actuarial assumptions, the change in administration of the plans occurs, limits are set for cost of living adjustments, and City Council approval is made.