

Overview of Minneapolis Pension Funds: Mayor's 2011 Budget Recommendations

October 15, 2010

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Department Staff**

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Agenda

- Overview of 2011 Pension Obligations
- PERA
- Status of Closed Pension Funds
 - MERF – separate fund within PERA
 - MPRA
 - MFRA
- Overview of Pension Funding in the Pension Management Plan
- Questions

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City Pension Obligations

2011 Mayor's Recommended Budget

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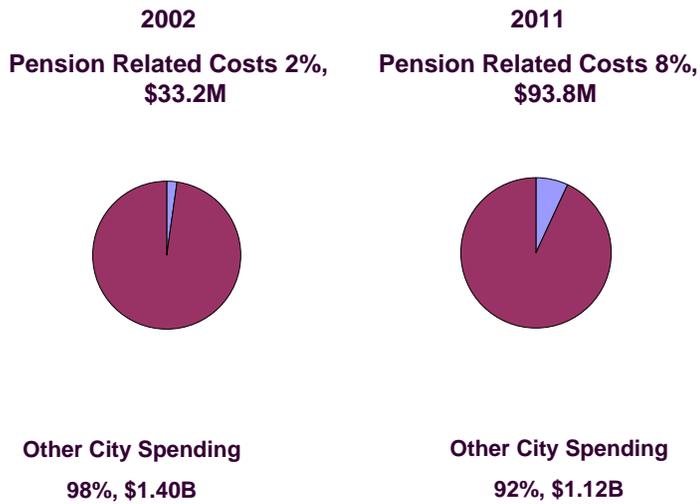
The Mayor's 2011 Plan for Pensions

The Mayor's Recommended Budget fulfills the City's pension obligations for 2011.

- Recommended: Pays 2011 pension levies and pension debt service, \$10.6M for debt service payments; additional \$12.3M for future pension obligations
- Deficiency budget: Pays 2011 pension levies and pension debt service, \$10.6M for debt service payments

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Pension Expenses as Percentage of City Budget, 2002 vs. 2011

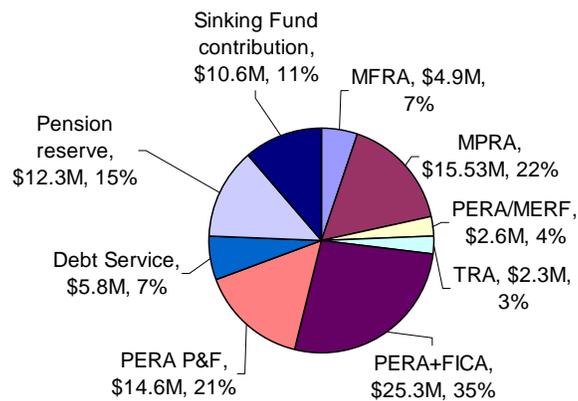


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2011 Recommended Budget Total City Pension-Related Obligations

\$94M (Open and closed funds including debt)

Tax Funds: \$76.67M, Non Tax: \$17.13M



What does an 6.5% property tax increase support in the 2011 Recommended Budget? (\$17.4 million in revenue increase from 2010)

2011 Property Tax Levy Change: \$17.4 Million		
<i>(Why are my taxes going up?)</i>		
	\$ Change*	% of Change
Increased Pension Obligations	\$ 17.7	101.8%
All Other Obligations	\$ (0.3)	-1.8%
Total of Tax Revenue Changes	\$ 17.4	100.0%

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Pensions Contribute to Property Tax Increases*

- Increasing funding for the City's pension obligations have taken a substantial percentage of new property tax revenue:
 - 2006: 36%
 - 2007: 11%
 - 2008: 30%
 - 2009: 27%
 - 2010: 51%
 - 2011: 102%

* Includes PERA plans, which included significant increases to employer contribution rates in the Police and Fire and Coordinated plan over this timeframe

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The Public Employees Retirement Fund (PERA)

2011 Mayor's Recommended Budget

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PERA Overview

- New City employees enroll in either PERA or PERA Police and Fire (P&F) plans
- City's contributions to PERA (includes P&F) in 2011: \$28.2 million (not including MERF Div)
- City budgets PERA expense within departmental budgets (excludes MERF Div)
- PERA's preliminary funding status as of 6/30/10 is 76.8% for the Basic & Coordinated Plans, and 85.9% for the PERA Police & Fire Plans.

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PERA Contribution Rate Increases and Employer Impact

Year	Coordinated Plan		Police/Fire Plan		Impact on City	
	Employee Rate	Employer Rate	Employee Rate	Employer Rate	Annual \$ Cost Increase for Employer	Cumulative \$ Increase for Employer
2005	5.10%	5.53%	6.20%	9.30%	NA	NA
2006	5.50%	6.00%	7.00%	10.50%	\$2.2 M	\$2.2 M
2007	5.75%	6.25%	7.80%	11.70%	\$1.9 M	\$4.1 M
2008	6.00%	6.50%	8.60%	12.90%	\$1.9 M	\$6.0 M
2009	6.00%	6.75%	9.40%	14.10%	\$1.9 M	\$7.9 M
2010	6.00%	7.00%	9.40%	14.10%	\$1.1 M	\$9.0 M
2011	6.25%	7.25%	9.60%	14.40%	\$0.7M	\$9.7M

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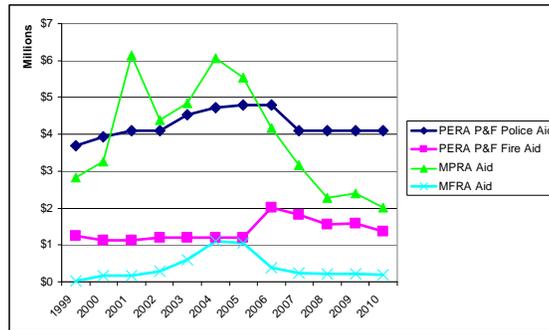
Projected City Employer Contributions to PERA

- 2011: \$28.2 million
- 2012: \$28.8 million
- 2013: \$29.3 million
- 2014: \$30.1 million
- 2015: \$30.8 million
- Five-Year Total: \$147.2 million

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Police and Fire State Aid 1999-2010

(received from State)



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Status of Closed Funds

2011 Mayor's Recommended Budget

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Funding Ratios of Pension Funds

- MFRA, 79.1% as of 12/31/09 (closed fund)
 - MPRA, 66.9% as of 12/31/09 (closed fund)
 - MERF, 55.9% as of 6/30/09 (closed fund)

 - PERA Basic & Coord, 76.8%* as of 6/30/10
 - PERA P&F, 85.9%* as of 6/30/10
- *PERA numbers are preliminary.

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Projected 2011 Contributions to City Pension Funds

The City will contribute a total of \$23 million to three **closed** pension funds:

- MPRA \$15.5 million levy (was \$11.8 million in 2010; \$19.7 prior to lawsuit)
- MFRA \$4.9 million levy (was \$1.3 million in 2010; \$3.0 prior to lawsuit)
- MERF* \$2.6 million levy (was \$2.4 million in 2010)

Levy: \$2.6 million

Non-tax funds: \$2.0 million (\$1.9 in 2010)

*The MERF Division of PERA

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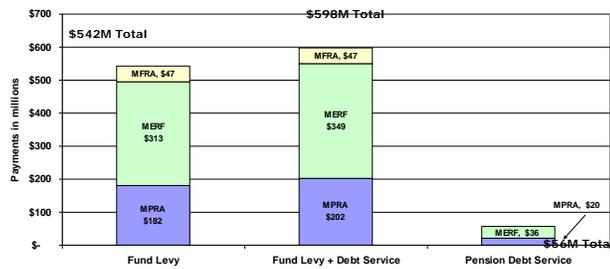
City Pension Levy Obligations

- The City is currently estimating pension levy obligations between 2011-2026 to be \$577.9 million.
 - **MERF*** 54.1% of total, or \$312.9 million
 - **MPRA** 31.4% of total, or \$181.6 million
 - **MFRA** 8.2% of total, or \$47.4 million
 - **TRA** 6.2% of total, or \$36.0 million

* MERF is the MERF Division of PERA.

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Funding of Closed Pension-Related Obligations Estimated Costs for 2011-2026 (Levy-Supported)



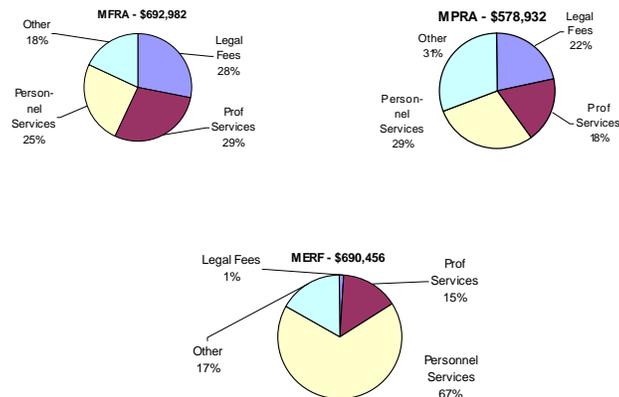
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The MERF Merger

- Contributions by the State, the City, and other MERF Employers.
- City payment to MERF Division of PERA increases to \$20-\$23 million annually beginning in 2012, with a projected end date of 2032 (anticipated full funding).
- Reduction of COLAs to PERA rates.
- PERA has taken administrative responsibility for MERF as of July 2010 – MERF is now a fund/division within PERA.

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2008 Administrative Fees for MERF, MFRA, MPRA



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Pension Fund Administrative Expenses per Member - 2008

- MPRA: \$673
- MFRA: \$1,175
- MERF: \$138
- PERA: \$27

- *2008 is the most recent year for which data is available on all funds' administrative expenses.*

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Overview of Closed Pension Funding in the Pension Management Plan

2011 Mayor's Recommended Budget

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Pension Management Plan: What is it?

Long-term plan to meet all pension obligations while avoiding peaks and valleys in levy demand

- Consolidates all closed-fund obligations
 - Reflects property tax and non-property tax obligations (e.g., enterprise funds)
 - Includes pension bond payments
- Smooths levy demand from year to year
 - Investment fluctuations
 - Changes in other actuarial factors

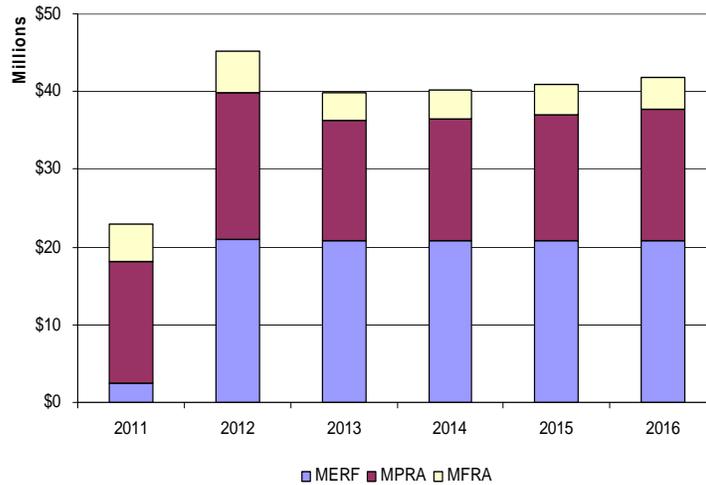
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What does Pension Management Plan manage?

- The City has 3 types of pension obligations:
 - 1) Payment to funds – direct levies
 - 2) Payments on pension bonds
 - 3) Pension reserves for future planning:
 - Debt service
 - Lower levies
 - Smooth annual levy payments
 - Avoid pension bonding

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1) Payments to funds Direct Levies 2011-2016



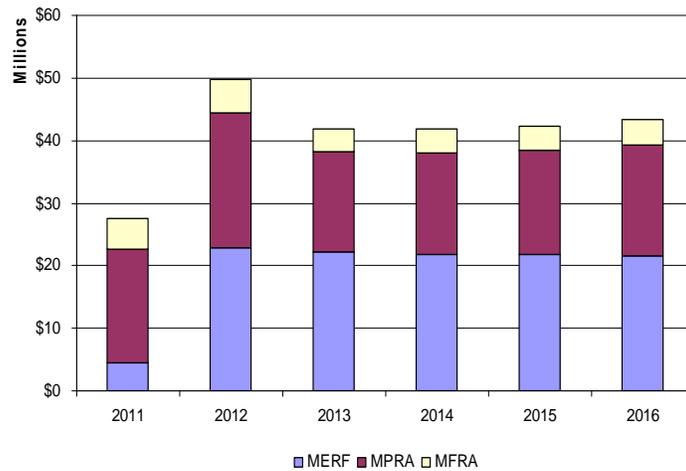
2) Payments on Bonds (City-Issued Pension Bonds 2002-2004)

Fund	Issue Date	Amount (Thousands)	Total Issue
MERF	12/19/02	\$ 25,000	\$61,000
	6/25/03	\$ 36,000	
MFRA*	12/1/04	\$ 4,740	\$4,740
MPRA	12/19/02	\$ 10,600	\$53,470
	10/30/03	\$ 17,900	
	12/01/04	\$ 24,970	
Total		\$119,210	\$119,210

*MFRA's pension last maturity was 12/1/08

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2) Bond Payments + Direct Levies 2011-2016



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3) What are the pension reserve funds used for?

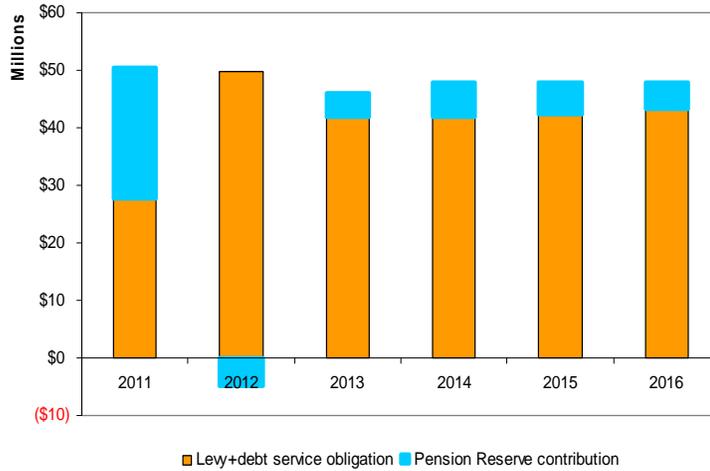
Reduce overall City costs

- Debt service – current payments or refunding future debt obligations
- Lower levies – set-aside to mitigate additional property tax increases
- Smoothing levy demand without bonding – avoids interest costs of bonding and reduces increases from one year to the next

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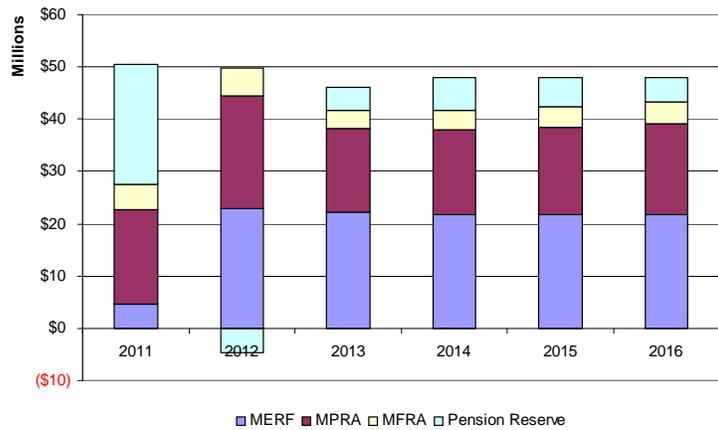
3) Pension Reserves

Direct levy + debt service + contribution to reserves



3) Pension Reserves

Direct levy + debt service + contribution to reserves



The Case for the Pension Management Plan

- Create reserves to absorb large, unpredictable increases without bonding and associated costs.
- Smooth peaks and valleys in City payments
- Pay off bonds early to reduce interest costs
 - In 2010, City will pay \$4.6M for MPRA and MERF bonds
 - Reducing debt frees up levy for other operating activities

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Questions?

2011 Mayor's Recommended Budget

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Supplemental Information

Please see the following slides for additional background information.

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MERF Timeline

- 1978 – MERF Closed to new members, employees enroll in PERA.
- 1999 – 2001 – MERF was 93% funded, funding remained above 90% until 2007.
- 2009 – MERF was 56% funded and sought legislatively to pursue merger with PERA.
- 2010 – MERF merger with PERA is approved with significantly increased annual commitments from the employers and the State.

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Teachers Retirement Association (TRA)

- Minneapolis Teachers Retirement Fund Association (MTRA) merged into TRA effective July 1, 2006
- City's annual contribution of \$2.25 million to TRA through 2037 is mandatory and triggers a matching state contribution
- 2010-2037 City contributions to TRA:
\$63.0 million

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Teacher's Retirement Association Timeline

- Minneapolis School District employer of record shifted over time.
 - 1900-1975 – City of Minneapolis
 - 1976-1985 – State of Minnesota
 - 1986-present – Minneapolis School District
- 1975 – Funding ratio of 57%. City could not reach full funding due to state enforce local levy limits.
- State became employer of record in 1976 and funding ratio dropped to 49% in 1985.

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PERA Coordinated: Benefit Calculation

- Defined benefit plan
- Members subject to Social Security rules
- Benefit calculation:
High five average salary X Years of service X 1.7%
- Example:
High five average salary = \$40,600; member has 27 years of service

$\$40,600 \times 1.7\% \times 27 \text{ years} = \$18,636$ annual PERA benefit + annual social security benefit

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PERA Police & Fire: Benefit Calculation

- Defined benefit plan
- Members NOT subject to Social Security rules
- Eligible for full benefit if at age 55 and have three years of service, or age 65 with one year of service
- Benefit calculation:
High five average salary X years of service X 3%
- Example:
High five salary = \$64,200; member has 27 years of service

$\$64,200 \times 3\% \times 27 \text{ years} = \$52,000$ annual benefit

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PERA Legislative History

- 1997: Benefit increase funded by change in State Board of Investment Post Fund interest rate and increased contributions.
- 2000: Change in demographic actuarial assumptions to match actual experience – fewer turnovers, change in actuarial asset calculation
- 2001: Coordinated employee contribution rates increased from 4.75% to 5.1%
- 2005: Change in employee and employer contribution rates between 2006 and 2010
- 2008: Post-fund and Pre-fund merger triggered.
- 2010: Employer and employee contribution rates increase for Coordinated and Police and Fire plans; COLA caps initiated

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Background on Closed Pension Funds

- Minneapolis has three local closed public pension plans for which it provides financial support
 - Minneapolis Employees Retirement Fund (MERF) segregated account within PERA
 - Minneapolis Police Relief Association (MPRA)
 - Minneapolis Fire Fighters Relief Association (MFRA)
- All are defined benefit arrangements (meaning they involve an employer's promise to provide specific benefits upon separation or retirement)
- City contributions to MFRA, MPRA and MERF (employer & employee) are mandated by MN statute and vary up or down based on financial and mortality and actuarial assumptions mandated by State.

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Background on Closed Pension Funds *continued*

- City has always fully funded all required contributions to these funds as required by statute
- Major Pension Cost Drivers:
 - Mortality Assumptions
 - Salary Assumptions (MPRA & MFRA)
 - Investment Return Assumptions and market conditions
 - Overtime hours (MPRA & MFRA – see unit value)
 - Benefit Calculation – currently in litigation with MPRA and MFRA
 - Full funding date (MPRA & MFRA)

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Major Cost Drivers

- | <u>Mortality Assumption</u> | <u>Salary Assumption</u> | <u>Other Factors</u> |
|--|---|--|
| <ul style="list-style-type: none"> ■ Changing to reflect members living longer. ■ MFRA updated mortality assumption in 2005, affected the 2007 levy. ■ MPRA updated in 2008, affected the 2010 levy and beyond. | <ul style="list-style-type: none"> ■ State statute sets salary assumption at 4% for MPRA, MFRA if contract is unsettled. ■ Salary affects numerous unit value parameters. | <ul style="list-style-type: none"> ■ Full funding date requirements under State statute. ■ Investment returns/earnings from investments. |

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Pension Benefits

Plans provide retirement, disability and survivor benefits to its members. Plan members are not covered by social security for their work at the City. (They may however, receive it for non-City employment.)

Average annual benefit for City of Minneapolis retirees:

-MERF:	\$36,288 per year as of 6/30/09 2,035 retirees (530 other)/106 active members
-MFRA:	\$40,622 per year as of 12/31/09 337 retirees (209 other)/24 active members
-MPRA:	\$43,016 per year as of 12/31/09 589 retirees (239 other)/11 active members

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Basis of Benefits

- **MERF** – Based on the average of highest five years salary within the last ten years of employment and years of creditable service at the date of retirement. Benefit amount will be 2% of that average salary for each of the first ten years of service and 2.5% of that salary for each year over ten years of service. After merger with PERA, COLA's will mirror PERA's COLA's (1% if less than 90% funded, otherwise 2.5%) Salary increases in City contracts only affect current employees.
- **MPRA** – Based on salary and benefits increases for a top grade patrol officer as defined in the City's labor contract. Salary increases raise all pensioners' benefits.
- **MFRA** – Based on salary and benefits increases as defined in the City's labor contract for a first grade fire fighter. Salary increases raise all pensioners' benefits.

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What is a unit value?

- MPRA and MFRA benefits are based on unit values. One unit is 1/80th of the maximum current monthly salary of a first grade patrol officer or first grade firefighter.
- Officers with 25 years of experience are eligible for the maximum of 43 units.
Firefighters with 25 years of experience are eligible for the maximum of 42 units.

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MFRA & MPRA Types of Pay used to calculate Unit Value

MPRA

- Base wage
- Shift differential
- Clothing/equipment
- Health club
- Longevity
- Comp time earned
- Sick leave payout
- **No vacation payout**
- **No performance premium**
- **No holiday pay**
- **No overtime**

MFRA

- Base wage
- Longevity
- Selection premium
- Sick leave buy back
- FLSA overtime
- Non-FLSA overtime
- **No health club dues**
- **No vacation cash out**
- **No holiday pay**
- **No work out of grade pay**
- *No performance premium*
- *No clothing & equipment*

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Historical Funding Ratios of the City's Closed Funds

	MERF (as of 6/30)	MPRA (as of 12/31)	MFRA (as of 12/31)
1996	80%	84%	83%
1997	84%	91%	90%
1998	89%	93%	105%
1999	93%	93%	109%
2000	93%	87%	108%
2001	93%	75%	104%
2002	92%	67%	87%
2003	92%	65%	81%
2004	92%	69%	90%
2005	92%	77%	86%
2006	92%	86%	88%
2007	86%	88%	93%
2008	76%	74%	90%
2009	56%	67%	79%

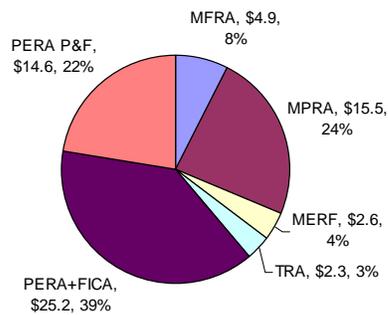
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2011 Recommended Budget

Total City Pension Payments to Funds

\$ 65.1M (Open and closed funds not including debt)

Tax Funds: \$51.0M, Non Tax: \$14.1M



*Dollars in Millions

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City Pension-Related Levy Obligations from 2002-2026

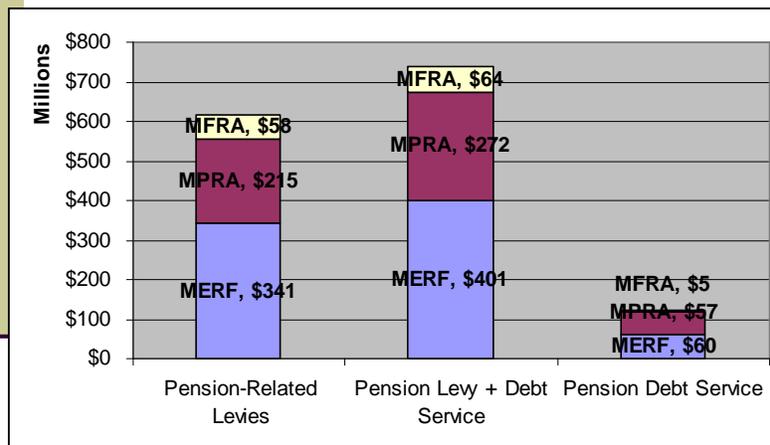
The City is estimating pension-related levy obligations between 2002-2026* at approximately \$670.7 million.

■ MERF**	50.9% of total, or \$341.2 million
■ MPRA	32.0% of total, or \$214.8 million
■ MFRA	8.7% of total, or \$58.5 million
■ TRA	8.4% of total, or \$56.3 million

*2002 was the first year of five-year financial planning.

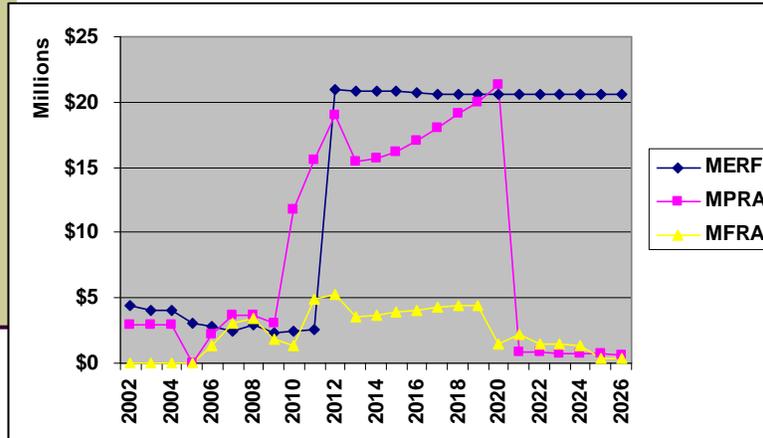
**Inclusive of contributions to PERA's MERF Division. 49

Funding of Closed Pension-Related Obligations Estimated Costs for 2002 - 2026



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City Direct Levy to Closed Funds 2002-2026



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Investment Return Assumptions

State statute sets assumed investment return rates:

MPRA, MFRA – 6%

PERA (SBI)

Active & Post (Merged) Fund – 8.5%

MERF

Assumptions Switched to PERA upon Merger

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