

Blue Ribbon Commission on Pensions

Findings and Recommendations

Minneapolis

October 2004



Summary

- The City has a present value expense for pensions of \$278 million.
- Current benefits should be protected, but no new benefits should be granted.
- The Commission is recommending merging the three closed city pension funds and other items that save \$89 million and improve the management of the funds.

Minneapolis Closed Pension Plans

- Minneapolis Employees Retirement Fund (MERF)
- Minneapolis Police Relief Association (MPRA)
- Minneapolis Firefighters' Relief Association (MFRA)

City Contributions to the Plans

- Mandated by state statute
- These contributions vary based on financial or demographic factors
- Prior to 2002 the City financed pension costs primarily through property tax levy
- Amount of City obligations has increased substantially, not monthly benefits

Growth of Obligation

- 1999 - \$12 million
- 2003 - \$54 million

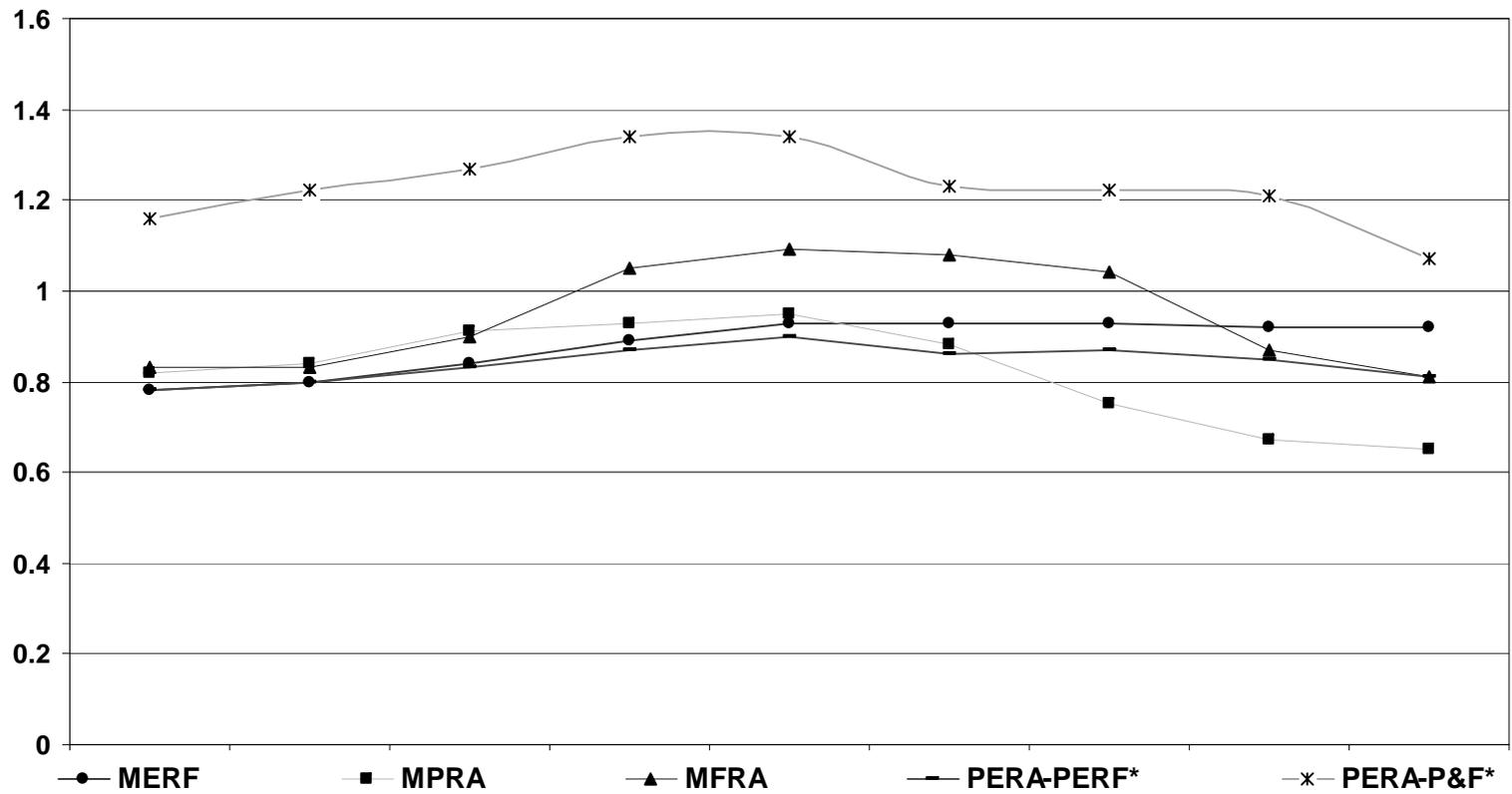
Fund Management

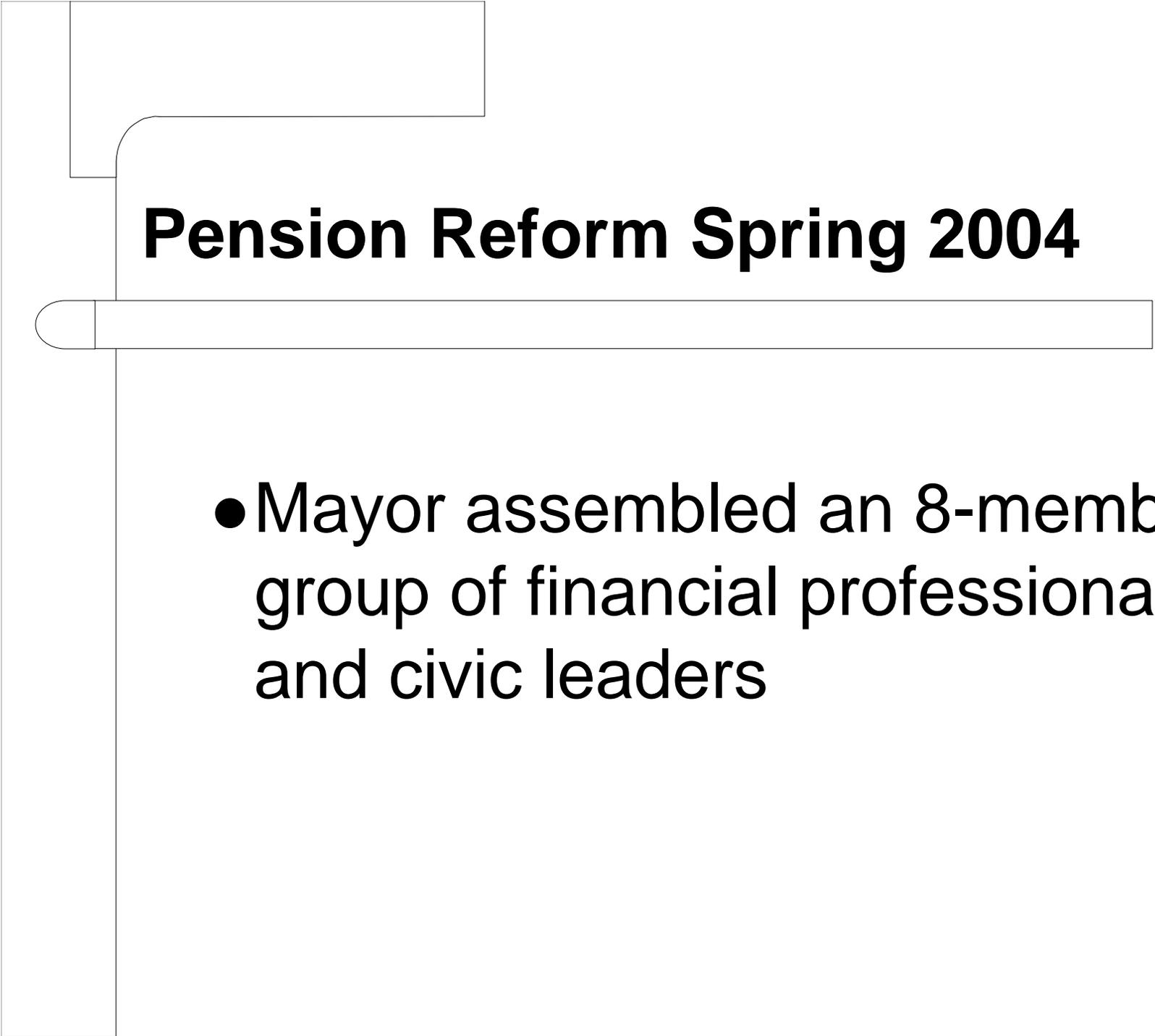
- Funds are managed by Boards
- Some benefits conflict with responsible fund management
 - Additional benefits granted even when funds are under-funded
- Concerns about responsible management by MPRA and MFRA have been raised
- MERF has professional investment management and benefits administration

Funding Levels

City of Minneapolis Blue Ribbon Commission on Pensions

Comparison of Funding Ratios: 1995-2003





Pension Reform Spring 2004

- Mayor assembled an 8-member group of financial professionals and civic leaders

Core Principles

- No reduction in the value of pension benefits for current and future retirees
- Fiduciary responsibilities to taxpayers & beneficiaries will be balanced
- Investment policies & practices should support fiduciary responsibilities
- Risks & benefits among City employees, beneficiaries and other parties should be balanced & fairly allocated

Core Principles (continued)

- State & City funding will be maintained at levels needed to provide for the long-term financial health of the plans, while recognizing long-term commitments of the respective parties
- Pension plans will be professionally managed and efficiently administered

Core Principles (continued)

- The LCPR's "Principles of Pension Policy" will be supported
- City approval for pension legislation relating to the Minneapolis closed pension plans

Commission Findings

- The City has paid approximately \$115 million to these three plans since 2002 and faces an additional \$330 million under current law & actuarial forecasts
- City property taxpayers are the guarantors of last resort for MPRA and MFRA
- OSA and LCPR reports call into question the governance and management practices of the MPRA & MFRA

Commission Findings

Governance and Management Practices

- Failure to adhere to state law in administering benefits (MPRA, MFRA)
- Failure to balance fiduciary duties to taxpayers and beneficiaries as required by state law (MPRA, MFRA)
- Failure to properly administer the 1995 settlement agreement with the City (MPRA, MFRA)
 - ✓ *Calculation of unit value*

Commission Findings

Governance and Management Practices (continued)

- Frequent board disputes resulting in turnover among board members (MPRA)
- Lack of professional investment management practices found by the City Finance Office (MPRA, MFRA)
- All practices result in increased costs to the taxpayers in the long-term

Commission Findings (continued)

- By 2010 nearly all employees in the three plans will be retired
- Existing funding structure results in an increasing burden on property taxpayers, requiring the City to pay obligations sooner than necessary for benefit payments

Commissions Recommendations

- MERF, MPRA and MFRA should be merged into PERA
- Removal of MERF liquidity trigger-savings \$22 million
- Extension of MPRA amortization date, make members “whole” in post-retirement benefit payments-savings \$38 million present value

Results

- No reduction in the value of pension benefits
- Reduce future city costs by 1/3rd
- Assurance of long-term professional management of pension funds

Commission Members

Jay Kiedrowski, Chair

Lou DeMars

Kent Horsager

Lisa Huey

Laura King

Dee Long

Stuart Mason

John Taft