PERA POLICE AND FIRE FUND 2013 LEGISLATIVE CHANGES TO PRESERVE SOLVENCY

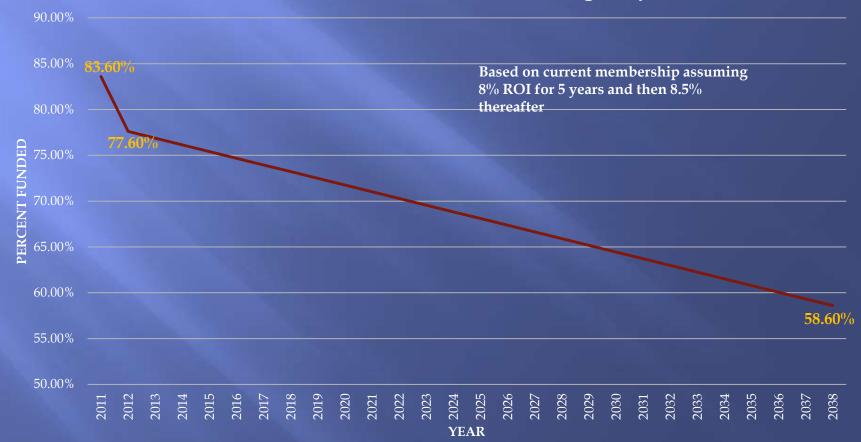
Presentation to Police Officers' Federation of Minneapolis May and June, 2013

The Problem

- Plan assets only covered 77.6% of plan obligations
- Plan contributions were 8.2% lower than necessary to meet plan obligations
- GASB changes looming could cut funding ration in half.
- Legislature still full of Tea Partiers
- Public support is lacking
- Bankruptcy threats

The Problem

PERA Police and Fire Fund Plan Funding Projection



Other Ideas To "Solve" Problem

- Eliminate plan or close plan and create a defined contribution plan for new hires
- New tier of benefits for new hires
- Increase retirement age (58 for full, 55 for early)
- Eliminate early retirement benefit
- Lower service credit to 2.75%
- High 5 on base pay only (no overtime)
- Limit benefit to 25 years (75% of high 5)
- Eliminate post-retirement adjustments

Goals of Work Group

- Plan to return to solvency by eliminating contribution deficiency (8.2%)
- Shared sacrifice by:
 - Active employees and future hires
 - Retirees
 - Employers
- Avoid Having Legislature Craft a Solution

Changes for Active Employees

Contributions to Increase by 3%

- **2014**
 - Employee from 9.6% to 10.2%
 - Employer from 14.4% to 15.3%
- **2**015
 - Employee to 10.8%
 - Employer to 16.2%
- What does that mean?
 - 2013 on \$65,000 annual: = \$6240/yr \$240/pp
 - 2014 on \$65,000 annual: = \$6630/yr \$255/pp
 - 2015 on \$65,000 annual: = \$7020/yr \$270/pp

Changes for Active Employees

Historical Perspective

- Prior to 1980 Mpls Police Relief Association. Fixed benefit based on 42% of the average salary of a 25-yr patrol officer. Same benefit regardless of rank.
- 1980 Minneapolis Police entered PERA P & F Fund
 - Service Credit 2.5%
 - Early Retirement Reduction No pre-55 benefit

1989

- Service Credit 2.5%
- Early Retirement Reduction actuarial value of benefit
- **1**993
 - Service Credit 2.65%
 - Early Retirement Reduction actuarial value of benefit

Changes for Active Employees Historical Perspective

- **1995**
 - Service Credit 2.65%
 - Early Retirement Reduction 2.4% per year.
- **1997**
 - Service Credit 3.0%
 - Early Retirement Reduction 2.4% per year.

1999

- Service Credit 3.0%
- Early Retirement Reduction 1.2% per year.

Changes for Active Employees Historical Perspective

2007

- Service Credit 3.0%
- Early Retirement Reduction 1.2% per year if hired prior to 7/1/2007; 2.4% if hired on or after 7/1/2007.

Changes for Active Employees

- Reduce Subsidy for Early Retirement
- Current actuarial cost 8% reduction per year
- Current reduction 1.2%
- Effective July 1, 2014, monthly phase in to 5%:

	Old Rate/%	New Rate/%	Reduction
6/30/14	1.2% - 100%	5% - 0%	1.20%
6/30/15	1.2% - 80%	5% - 20%	1.96%
6/30/16	1.2% - 60%	5% - 40%	2.72%
6/30/17	1.2% - 40%	5% - 60%	3.48
6/30/18	1.2% - 20%	5% - 80%	4.24%
6/30/19	1.2% - 0%	5% - 100%	5.00%

Changes for New Hires

- **Effective for employees hired after July 1, 2014:**
- Vesting Schedule Change

 10 years 50% plus 5% per year
 20 Years to be 100% vested

 Pension capped at 33 years of service (99%)

Changes for Benefit Recipients

Effective July 1, 2014:

- Annual adjustment limited to 1% until 90% funded
 - After plan is 90% funded, adjustment based on costing of living up to 2.5%

Delay first adjustment by two years

 Third year after retirement (presently eligible for first adjustment on first check of fiscal year after 12 months at initial rate)

State Assistance

- In addition to pension reform bill, POFM instrumental in getting separate bill passed that adds \$9 Million from State General Fund to plan.
- First time Legislature has approved aid from General Fund.
- Will help protect plan against future economic downturns and will help reach 90% funding level sooner.

Summary

	Active employees	2.3%
·	(Contribution/Early Ret) New hires	0.1%
•	(Vesting/Service Cap) Benefit Recipients (COLA Cut/COLA Delay)	4.1%
	(Contribution)	1.8%
	TOTAL	8.3%

 State funds to protect Plan against future contingencies