

S.F. 625
(Tomassoni)

H.F. 474
(Rukavina)



Executive Summary of Commission Staff Materials

Affected Pension Plan(s): Eveleth Police and Fire Trust Fund
Relevant Provisions of Law: Uncoded law
General Nature of Proposal: Ad Hoc Post Retirement Increase, Service Pensioners and Survivors
Date of Summary: March 2, 2001

Specific Proposed Change(s)

Ad Hoc Benefit Increase. Eveleth Police and Fire Trust Fund members would receive benefit increases of \$100 per month.

Policy Issues Raised by the Proposed Legislation

1. Need For Change. Benefit paid by the trust fund are modest, and the trust fund does not have any mechanism to automatically provide increases. The trust covers nine benefit recipients; the youngest is age 78 and four recipients are age 90 or older.
2. City Willingness to Cover Payment Needs. On December 31, 2000, trust fund assets were \$330,655, and total annual benefit payments are more than one-third of total fund assets. In the most recent available calendar year, though, asset earnings and city contributions were \$132,269, which is in excess of the annual benefit payout, suggesting that the city is willing to provide assets necessary to cover payment needs.
3. Design Of The Increase. The bills follows the pattern established many years ago for this trust fund of providing an identical dollar increase for each benefit recipient, rather than an identical percentage increase. When a fixed-dollar increase is provided, the percentage increase will vary by member. A \$100 per month benefit increase for service pensioners is equivalent to an 8.7 percent increase. That same dollar increase for the surviving spouses creates percentage increases varying from a 9.9 percent increase to a 11.7 percent increase.



TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Edward Burek, Deputy Executive Director EB

RE: S.F. 625 (Tomassoni); H.F. 474 (Rukavina): Eveleth Police and Fire Trust Fund;
Ad Hoc Post Retirement Increase

DATE: February 28, 2001

Summary

S.F. 625 (Tomassoni); H.F. 474 (Rukavina): Eveleth Police and Fire Trust Fund; Ad Hoc Post Retirement Increase, provides Eveleth Police and Salaried Firefighter Trust Fund benefit recipients (retired police officers and firefighters who receive service pensions, and surviving spouses) with a permanent ad hoc post retirement increase of \$100 per month, retroactive to January 1, 2001. Local approval is required.

Background

The Eveleth Salaried Firefighters Relief Association and the Eveleth Police Relief Association were created in 1935, to provide pension coverage to Eveleth salaried firefighters and to Eveleth police officers, respectively. In 1977 (Laws 1977, Chapter 61) the active members of each relief association had their pension coverage transferred to the Public Employees Police and Fire Fund (PERA-P&F), with the pension coverage for any existing benefit recipients of the two relief associations transferred to a joint Eveleth retired police and firefighters retirement trust fund, which was required to be managed by the City of Eveleth.

The coverage transfer for active members was prompted by active member dissatisfaction over the modest benefit coverage provided by the two local relief associations. At the time of the 1977 coverage transfer, the two relief associations provided very modest benefits compared to other local relief associations.

At the present time, the Eveleth trust fund pays benefits to a small group of individuals, only two retired members and seven surviving spouses of deceased service pensioners. The total annual benefit payout in calendar year 2000 was \$114,727. The two service pensioners each received \$13,800 annually, or \$1,150 per month. Annual survivor benefits for the remaining survivors ranged from \$10,245 to \$12,090 per year, or from \$854 to \$1,008 per month. Regarding ages, as of December 31, 2000, the youngest retiree was 89 years old; the other was 93 years old. The youngest surviving spouse was 78 years old while the oldest was 91.

Until 1998, the Eveleth trust fund was required to be actuarially funded. However, contributions sufficient to actuarially fund the benefits provided by the trust fund by the full funding date typically were not made. Under 1982 legislation, the joint trust fund was required to be fully amortized (assets equal to accrued liability) as of December 31, 1991. The trust fund did not meet that amortization target date. In 1993, the amortization target date was reset to December 31, 1998. That special law was not approved by the City of Eveleth until December 6, 1994, and no significant progress on the amortization of the unfunded liability occurred. In 1995, special legislation was enacted that made the annual payment of the ad hoc post retirement adjustment conditioned on making the required amortization contribution.

In 1998, the Legislature again revised its policy regarding this trust fund, moving to a pay-as-you-go funding approach. The city was required in law, however, to contribute an amount sufficient, given the investment return of the fund, to cover the benefit payments for the coming year. If the contribution was not sufficient, ad hoc benefit increases granted through special law legislation for 1995 and 1997 were not to be paid. In 1999, another ad hoc benefit increase was granted as a result of bills authored by Senator Janezich and Representative Rukavina (S.F. 103 (Janezich); H.F. 68 (Rukavina)). The benefit increase was rolled into an omnibus pension bill and passed as Laws 1999, Chapter 222, Article 3, Sections 1 and 2. That 1999 legislation also removed the requirement that recent ad hoc benefit increases be rescinded if the city fails to contribute sufficient amounts to cover benefit payments to be made in the succeeding year.

The Eveleth trust fund does not have any mechanism to automatically provide annual benefit increases to retired members and survivors. This would cause the value of any given benefit to erode over time due to

the effect of inflation if ad hoc increases were not granted. In response, the Legislature has granted numerous ad hoc benefit increases to the benefit recipients of this trust fund over the years, as follows.

Table 1
Post Retirement Adjustments
Eveleth Trust Fund

Year	Post Retirement Adjustment Amount	Effective Date
1979 (Laws 1979, Chapter 131)	\$30 per month	January 1, 1979
1981 (Laws 1981, Chapter 68)	\$40 per month	January 1, 1981
1982 (Laws 1982, Chapter 574)	\$35 per month	January 1, 1982
1983 (Laws 1983, Chapter 55)	\$10 per month	January 1, 1983
1984 (Laws 1984, Chapter 574)	\$10 per month	January 1, 1984
1985 (Laws 1985, Chapter 261)	\$25 per month	January 1, 1985
1986 (Laws 1986, Chapter 458)	\$25 per month	January 1, 1986
1988 (Laws 1988, Chapter 709)	\$50 per month	January 1, 1988
1989 (Laws 1989, Chapter 319)	\$100 per month	January 1, 1989
1991 (Laws 1991, Chapter 27)	\$75 per month	January 1, 1991
1993 (Laws 1993, Chapter 160)	\$100 per month	January 1, 1993
1995 (Laws 1995, Chapter 262, Article 9, Section 1)	\$100 per month	January 1, 1995
1997 (Laws 1997, Chapter 241, Article 2, Section 19)	\$100 per month	January 1, 1997
1999 (Laws 1999, Chapter 222, Article 3, Sections 1 and 2)	\$100 per month	January 1, 1999
Total Increases:	\$800 per month	

Discussion

S.F. 625 (Tomassoni); H.F. 474 (Rukavina): Eveleth Police and Fire Trust Fund; Ad Hoc Post Retirement Increase, provides Eveleth police and salaried firefighter trust fund benefit recipients (retired police officers and firefighters who receive service pensions, and surviving spouses) with a permanent ad hoc post retirement increase of \$100 per month, retroactive to January 1, 2001. Local approval is required.

The proposed legislation raises the following issues.

1. Need For Change/Nature Of Change. The issue is whether there is a sufficient need to consider the bill and provide a benefit increase. The Commission may wish to consider that the benefits provided by the trust fund are modest. The trust fund does not have any mechanism to automatically provide increases. There are nine benefit recipients; the youngest is age 78 and four recipients are age 90 or older. In recent years, ad hoc benefit requests have occurred and been granted by the Legislature every other year. When these increases are averaged over two years, the increases amount to less than the percentage increases generated over the last several years for the larger Minnesota public pension plans.

There would be some risk in considering some form of automatic increase for trust fund members, in lieu of the ad hoc Eveleth trust fund proposals which periodically are introduced. No actuarial reports are now required for this trust fund, and in the past the city did not make the contributions that the trust fund needed to retire its obligations, as indicated in those reports. An automatic increase mechanism would create liabilities, and the implications of those liabilities would not be immediately apparent, due to the lack of periodic analysis that actuarial reports could provide.

2. Financial Solvency Of The Joint Trust Fund. The pension issue is the adequacy of the trust fund assets, and the willingness of the city to ensure that the assets are sufficient to meet the benefit payout needs. The most recent data staff has on the trust fund is from the Eveleth Fire and Police Retirees' Relief Association, Annual Actuarial Valuation, December 31, 1997. The requirement that this trust fund obtain an actuarial valuation ended shortly thereafter. As noted below, as of December 31, 1997, the trust fund had \$213,309 in assets, \$583,427 in accrued liabilities, and was 36.6 percent funded. At that time there were three retirees and eight survivors. Currently, there are two retirees and seven survivors.

Table 2
Eveleth Trust Fund Actuarial Data
December 31, 1997

	Actuarial Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities	Percent Funded
Retirees and Beneficiaries				
Retired Members (3)		\$138,935		
Surviving Spouses (8)		444,492		
Surviving Children(0)		<u>0</u>		
Total (11)	\$213,309	\$583,427	\$370,118	36.6%
Members with Deferred Benefits (0)	0	0	0	--
Active Members (0)	<u>0</u>	<u>0</u>	<u>0</u>	--
Total (11)	\$213,309	\$583,427	\$370,118	36.6%

The funding ratio shown above indicates that, as of the end of 1997, the remaining liabilities were large relative to the assets on hand. We noted above that the total annual benefit payout under current law is \$114,727. With the \$100 per month per member increase proposed by the current bill, the benefit annual benefit payout would increase to \$125,527. According to a recent letter from Mr. Raymond Eck, the City Clerk for the City of Eveleth, total trust fund assets as of December 31, 2000 were \$330,655. The current annual benefit payout, \$114,727, or the expected annual benefit payout if the ad hoc benefit increase under S.F. 625 (Tomassoni); H.F. 474 (Rukavina) is granted, \$125,527, is a large portion of the total trust fund assets, somewhat in excess of one-third of those assets.

Although payouts are large relative to assets, the city does appear willing to ensure that money is available to meet trust fund payments. Mr. Eck's letter indicates that the total revenue to the fund from asset earnings and city contributions for calendar year 2000 was \$132,269, which is in excess of the payout. Although the legal requirement that the city annually contribute an amount which, together with investment earnings, is sufficient to cover annual payout was removed from law 1999, the information for calendar year 2000 suggests that the city is more than meeting the spirit of that language. The LCPR may also wish to consider that the total financial burden on the city is not large. The total payout is modest in size and is likely to decrease in the near future. The trust fund covers only nine individuals.

3. Appropriate Size Of The Member Increase, And Design Of The Increase. The pension policy issue is the nature of the increase, and its size. The bill follows the pattern established many years ago for this trust fund of providing an identical dollar increase for each benefit recipient, rather than an identical percentage increase. Apparently, this is the approach that the city and presumably the trust fund members prefer. However, we have noted in past memos for Eveleth trust fund ad hoc increases that this approach results in percentage increases which differ between service pensioners and the survivor group. One can contend that the living costs increase over time in a percentage manner, and an equal percentage increase for all members of the trust fund is a preferable design. Under the fixed-dollar increases that have occurred in the past for trust fund members, and are again proposed in the current bills, the percentage increase will vary by member. Because the current survivors have annual benefits which are somewhat less than the service pensioners, a \$100 per month increase creates a larger percentage increase than the service pensioners receive. There are also differences within the survivor group, because the current benefit amounts received within the survivor group varies. Given the current payments to the service annuitants and survivors as indicated in Mr. Eck's letter, a \$100 per month increase (\$1,200 per year) would amount to an 8.7 percent increase for the service pensioners. For the survivor currently receiving the largest survivor pension, a \$12,090 annual benefit, a \$100 per month increase amounts to a 9.9 percent increase. For the survivor with the lowest current benefit (\$10,245 per year) a \$100 per month increase creates an 11.7 percent increase.
4. Local approval. To ensure that LCPR meeting time is productively used, the Commission has been unwilling to consider local plan benefit increase legislation unless the municipality supports the legislation. A city resolution supporting the resolution is attached.

Technical Amendment. Attached is Amendment LCPR01-13, which would replace the existing local approval language in the bills with local approval language in a form recommended by the Office of the Revisor of Statutes for use in bills requiring local approval.

1 M moves to amend S.F. No. 625; H.F. No.
2 474, as follows:

3 Page 1, delete lines 14 and 15 and insert "Section 1 is
4 effective on the day after the date on which the Eveleth city
5 council and the chief clerical officer of the city of Eveleth
6 complete in a timely manner their compliance with Minnesota
7 Statutes, section 645.021, subdivisions 2 and 3."

8

Senator Tomassoni introduced--

S.F. No. 625: Referred to the Committee on State and Local Government Operations.

A bill for an act

relating to retirement; providing a postretirement adjustment for certain retired police officers and firefighters in Eveleth.

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

Section 1. [EVELETH RETIRED POLICE AND FIRE TRUST FUND; ADHOC POSTRETIREMENT ADJUSTMENT.]

In addition to the current pensions and other retirement benefits payable, the pensions and retirement benefits payable to retired police officers and firefighters and their surviving spouses by the Eveleth police and fire trust fund are increased by \$100 per month. Increases are retroactive to January 1, 2001.

Sec. 2. [EFFECTIVE DATE.]

Section 1 is effective upon approval by the Eveleth city council and compliance with Minnesota Statutes, section 645.021.

File
Eveleth



Calvin Cossalter
Mayor

Raymond J. Eck
City Clerk

COUNCILORS
Thomas L. Kallevig
Jim Pollack
Connie Sabetti
Matt J. Filipovich

February 21, 2001

Mr. Lawrence A. Martin
Executive Director
MN Legislative Commission on Pensions and Retirement
55 State Office Building
St. Paul, MN 55155-1201

RE: Information Concerning H.F. 474 (Rukavina)

Dear Mr. Martin:

The following is the information requested:

1. The total assets of the trust fund as of December 31, 2000 was \$330,655.30. There are no outstanding liabilities. The total revenue for the year ending December 31, 2000 was \$132,269.80. The expenditures of the trust fund was \$114,727.00.
2. Legislation was passed some years ago which eliminated the requirement of the City of Eveleth to do an actuarial study of this group and determine the accrued liability. The requirement by statute is that the city fund this trust fund with a minimum amount to pay the benefits.
3. The following is a list of the benefit recipients, their ages, and their annual benefit amount as of December 31, 2000:

<u>Retirees</u>	<u>Age</u>	<u>Annual Benefit Amount</u>
Edwin Coombe	89	\$13,800.00
Elio Varani	93	\$13,800.00
<u>Surviving Spouses</u>		
	<u>Age</u>	<u>Annual Benefit Amount</u>
Dora Plattner	78	\$11,160.00
Mary G. Rozinka	84	\$11,100.00
Julia Vukson	82	\$11,250.00
Rose Jacobson	91	\$10,305.00
Solvieg Juola	84	\$10,245.00
Helmi Mahaffey	90	\$11,460.00
Mary Veranth	91	\$12,090.00
Signe Juola	— Died November, 2000 —	\$ 9,517.00
		\$ 114,727.00



Mr. Lawrence Martin
February 21, 2001
Page 2.

Please don't hesitate to contact me if you have any questions.

Yours truly,

A handwritten signature in black ink, appearing to read 'Raymond J. Eck', written in a cursive style.

Raymond J. Eck
City Clerk

RJE:ss

Calvin Cossalter
Mayor

Raymond J. Eck
City Clerk



COUNCILORS
Thomas L. Kallevig
Jim Pollack
Connie Sabetti
Matt J. Filipovich

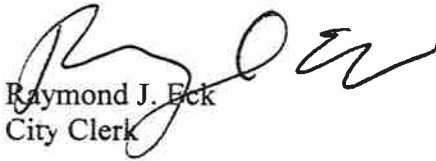
January 17, 2001

The Honorable Tom Rukavina
MN House of Representatives
375 State Office Building
St. Paul, MN 55155

Dear Mr. Rukavina:

Enclosed please find a certified copy of the motion increasing the Eveleth Firemen and Police Retirement Association by \$100.00 per month.

Yours truly,


Raymond J. Eck
City Clerk

RJE:ss

Enc.

Minutes of Regular Meeting of the Eveleth City Council held Tuesday, August 15, 2000 at 7:00 p.m.

Meeting called to order by Mayor Lenich. Roll call: Present: Councilors Sabetti, Pollack, Matos, Kallevig and Mayor Lenich. Absent: none. Also present were City Attorney Aronson and City Clerk Eck.

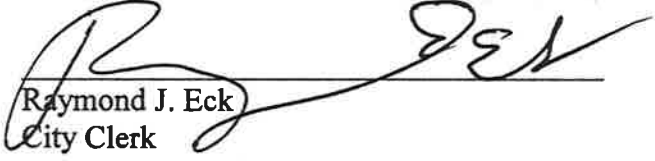
Moved by Pollack, supported by Sabetti, that the request for \$100 cost of living increase for the Eveleth Firemen and Police Retirement Association be approved.
Carried.

STATE OF MINNESOTA)

COUNTY OF ST. LOUIS)

I, Raymond J. Eck, City Clerk of the City of Eveleth, St. Louis County, Minnesota, do hereby certify that I have compared the foregoing motion now on file and of record in my office and the same is a true and correct copy of the motion incorporated in the Minutes of the Regular Meeting of the Eveleth City Council held Tuesday, August 15, 2000.

Witness my hand and seal of office at Eveleth, Minnesota, this 17th day of January, 2001.


Raymond J. Eck
City Clerk
City of Eveleth, MN

(8) public employees police and fire fund, established by chapter 353;

~~(9) public employees local government correctional service retirement plan, established by chapter 353E;~~

(10) teachers retirement association, established by chapter 354;

~~(10) (11) Duluth teachers retirement fund association, established by chapter 354A;~~

~~(11) (12) Minneapolis teachers retirement fund association, established by chapter 354A;~~

~~(12) (13) St. Paul teachers retirement fund association, established by chapter 354A;~~

~~(13) (14) Minneapolis employees retirement fund, established by chapter 422A; and~~

~~(14) (15) judges' retirement fund, established by sections 490.121 to 490.132.~~

Sec. 20. REPEALER.

Minnesota Statutes 1998, section 353.33, subdivision 3a, is repealed.

Sec. 21. EFFECTIVE DATE.

Sections 1 to 8 and 10 to 20 are effective on July 1, 1999. Section 9 is effective on the first day of the first payroll period beginning after June 30, 1999.

ARTICLE 3

**LOCAL POLICE AND PAID FIRE RELIEF
ASSOCIATION BENEFIT MODIFICATIONS**

Section 1. Laws 1977, chapter 61, section 6, as amended by Laws 1981, chapter 68, section 39, and Laws 1998, chapter 390, article 7, section 3, is amended to read:

Sec. 6. EVELETH RETIRED POLICE AND FIRE TRUST FUND; FINANCIAL REQUIREMENTS OF THE TRUST FUND.

(a) The city of Eveleth shall provide by annual levy an amount sufficient to pay an amount which when added to the investment income of the trust fund is sufficient to pay the benefits provided under the trust fund for the succeeding year as certified by the board of trustees of the trust fund.

(b) ~~If the city of Eveleth fails to contribute the amount required in paragraph (a) in a given year, no postretirement adjustment granted under Laws 1995, chapter 262, article 10, section 1, or Laws 1997, chapter 241, article 2, section 19 is payable in the following year.~~

Sec. 2. EVELETH RETIRED POLICE AND FIRE TRUST FUND; AD HOC POSTRETIREMENT ADJUSTMENT.

In addition to the current pensions and other retirement benefits payable, the pensions and retirement benefits payable to retired police officers and firefighters and their

New language is indicated by underline, deletions by ~~strikeout~~.

surviving spouses by the Eveleth police and fire trust fund are increased by \$100 a month. Increases are retroactive to January 1, 1999.

Sec. 3. FAIRMONT POLICE RELIEF ASSOCIATION; ADDITIONAL ANNUAL POSTRETIREMENT ADJUSTMENT.

(a) If the requirement of paragraph (f) is met, every recipient of a pension or benefit from the Fairmont police relief association on June 30, annually, is entitled to receive a postretirement adjustment as provided in this section in addition to any pension or benefit increase payable by virtue of an increase in the salary of active patrol officers in the city of Fairmont on the following July 1.

(b) If the value of current assets of the relief association is equal to at least 102 percent of the actuarial accrued liability of the Fairmont police relief association as of December 31 in the prior calendar year as calculated under Minnesota Statutes, sections 356.215 and 356.216, one percent of the value of current assets of the relief association is available for the payment of the postretirement adjustment under this section.

(c) The amount of the postretirement adjustment must be calculated by the chief administrative officer of the relief association. The postretirement adjustment amount is payable monthly. The total amount of all service pensions, disability pensions, and survivor benefits, without inclusion of any postretirement adjustment paid previously under this section must be calculated and the percentage amount of each recipient's annual pension or benefit of the total amount, expressed as four digits beyond the decimal point, must be determined. The monthly postretirement adjustment payable to each pension or benefit recipient is 1/12 of the dollar amount determined by applying each recipient's determined percentage of the total amount of pensions and benefits to the total dollar amount available for payment as a postretirement adjustment.

(d) The postretirement adjustment amount paid in any year under this section does not compound and must not be added to the pension base for the calculation of a subsequent postretirement adjustment. If a pension or benefit recipient dies before the 12 monthly postretirement adjustments under this section have been paid, the remaining monthly postretirement adjustment payments cancel to the special fund of the relief association. Nothing in this section authorizes the payment of the postretirement adjustment to an estate or to a person who did not qualify for a postretirement adjustment in the person's own right.

(e) The chief administrative officer of the relief association will report the total amount of benefits paid under this section to the executive director of the legislative commission on pensions and retirement, the city clerk, and the state auditor.

(f) Payment of the postretirement adjustment amount provided under this section may be made in a given year only if the average time-weighted total rate of return for the total portfolio for the most recent five-year period exceeds by at least two percent the actual average percent increase in the current monthly salary of a first class patrol officer in the most recent prior five fiscal years.

Sec. 4. FAIRMONT POLICE RELIEF ASSOCIATION; RETROACTIVITY OF SURVIVING SPOUSE BENEFIT INCREASE.

(a) The surviving spouse benefit amount under Laws 1963, chapter 423, is payable to all surviving spouses receiving benefits as of the date of the approval of this act.

New language is indicated by underline, deletions by ~~strikeout~~.

(b) Any surviving first day of the month n

Sec. 5. FAIRMONT POLICE RELIEF ASSOCIATION; REQUIREMENTS REQUIRED.

Sections 3 and 4 must be amended to comply with the Fairmont police relief association.

Sec. 6. ST. CLOUD POLICE RELIEF ASSOCIATION; ONE-TIME POSTRETIREMENT ADJUSTMENT.

(a) Notwithstanding any other law, for the special one-time postretirement adjustment for vice pensioners, disability pensions, and police consolidation accounts, effective December 31, 1997, the effective date of this act, Minnesota Statutes, chapter 356, section 216, is amended to read as follows: "The postretirement adjustment payable to each pension or benefit recipient is 1/12 of the dollar amount determined by applying each recipient's determined percentage of the total amount of pensions and benefits to the total dollar amount available for payment as a postretirement adjustment."

(b) The special one-time postretirement adjustment is retroactive to January 1, 1997, the effective date of this act.

(c) Nothing in this section shall be construed to affect the payment to an estate.

Sec. 7. EFFECTIVE DATE.

(a) Sections 1 and 2 of this act shall take effect on the date of compliance with Minnesota Statutes, chapter 356, section 216.

(b) Sections 3, 4, and 5 of this act shall take effect on the date of compliance with Minnesota Statutes, chapter 356, section 216.

(c) Section 6 is effective on the date of compliance with Minnesota Statutes, chapter 356, section 216.

Section 1. Minnesota Statutes, chapter 356, section 216, is amended to read:

Subd. 12. ALLOCATION OF ASSETS. The actuary shall assess each retirement plan and the amount of the benefit paid to the actuary retained for the purpose of the quadrennial projection valuation.

New language is indicated by underline, deletions by ~~strikeout~~.