TO:	Members of the Legislative Commission on Pensions and Retirement
FROM:	Ed Burek, Deputy Director
RE:	S.F. 998 (Betzold, by request); H.F. 1754 (Smith): State Patrol Retirement Plan; Employee and Employer Contribution Rate Increases
DATE:	March 21, 2005

Summary of S.F. 998 (Betzold, by request); H.F. 1754 (Smith)

S.F. 998 (Betzold, by request); H.F. 1754 (Smith) increases the State Patrol Retirement Plan employee contribution rate from 8.4 percent to 9.1 percent on July 1, 2005, and to 9.8 percent on July 1, 2006. The employer contribution rate is increased from 12.6 percent of salary to 13.6 percent on July 1, 2005, and to 14.6 percent of salary on July 1, 2006. The sum of the employee and employer contribution increases is 3.4 percent of salary.

Background Information on State Patrol Retirement Plan

The State Patrol Retirement Plan was established in 1943, (Laws 1943, Chapter 637) and initially provided retirement coverage solely for state highway patrol troopers. Currently, the State Patrol Retirement Plan provides retirement coverage for four distinct groups of law enforcement officers, the State Patrol Division of the Department of Public Safety, the Bureau of Criminal Apprehension of the Department of Public Safety, the Enforcement (Game Wardens) Division of the Department of Natural Resources, and the Gambling Enforcement Division of the Department of Public Safety.

A separate retirement plan had been established for game wardens (the Game Wardens Retirement Plan) in 1955. In 1961, the State Police Retirement Plan was established for Bureau of Criminal Apprehension agents and officers and, when it was created, it absorbed the Game Wardens Retirement Plan. In 1969, the State Police Retirement Plan was in turn merged into the State Patrol Retirement Plan. In 1990, law enforcement officers in the Gambling Enforcement Division of the Department of Public Safety were added to the State Patrol Retirement Plan. With the exception of a small number of data processing personnel in the Bureau of Criminal Apprehension who were grandparented into the plan in 1987-1988, all members of the State Patrol Retirement Plan are peace officers licensed by the Peace Officers Standards and Training Board.

As a public safety pension plan, the State Patrol Retirement Plan pays larger retirement annuities, disability benefits, and survivor benefits than a general employee retirement plan and has an earlier normal retirement age for the retirement annuity. Because of these benefit plan differences, the plan has a greater actuarial cost and greater member and employer contributions than a general employee retirement plan. As law enforcement officers, members of the State Patrol Retirement Plan are not covered by Social Security under both state and federal law for their state law enforcement employment.

The retirement benefit provided for a member retiring at the plan's normal retirement age, age 55, is three percent of the high-five average salary for each year of service. A member who is age 55 or older with 30 years of service and has a high-five average salary of $75,000 will receive an annuity of $67,500. Members can retire as early as age 50 with only a slight reduction due to early retirement. The reduction is 1/10 of a percent for each month (1.2 percent per year) that the individual is under age 55. These early retirement annuities are subsidized. For disability determinations, the plan uses an occupational definition of disability, an inability to perform the specific job, rather than the more stringent definition used by general employee plans, which require an inability to perform any gainful employment. The disability benefit is generous. If the disability is duty-related, the benefit is computed just like a service pension except there is no reduction due to early receipt. The minimum service-related disability benefit is equivalent to a 20-year service pension. Non-duty-related disability benefits are computed the same way, except that the minimum benefit is equivalent to a 15-year pension, and the individual must have at least one year of service credit to be eligible.

The policy reason for having a more lucrative benefit program for public safety employee retirement plans is that public safety employment (police officer or firefighter service) is particularly hazardous, that it requires the maintenance of a particularly vigorous and robust workforce to meet the strenuous requirements of the employment position, and that the normally expected working career of a public safety employee will be significantly curtailed as a consequence of the hazards and strenuous requirements of that type of employment when compared to a general public employee.

Public employee pension plans are intended to assist the governmental personnel system by encouraging the recruitment of qualified and motivated new employees, the retention of able and valued existing employees, and the orderly and predictable out-transitioning of employees at the expected end or normal conclusion of their working career. For public safety employees, public safety employee retirement plans provide more lucrative benefits to assist in the recruitment and retention of new and existing personnel, but most clearly emphasize the out-transitioning function.

Background Information on the State Patrol Plan Funding Condition

S.F. 998 (Betzold, by request); H.F. 1754 (Smith) would increase the employee and employer contribution rates over a few years to generate contributions of another 3.4 percent of salary to the retirement fund. The need for any increase is not apparent from the summarized actuarial report information attached to this memo, which summarizes results from 1991 through 2004. If anything, these results could be used to support an argument for a contribution decrease. Regarding funding ratios, this fund was well funded by 1991, with an 89.3 percent funding ratio. It reached full funding in 1995, and has been more than fully funded ever since. The highest funding ratio occurred in 1999, when the funding ratio was 116 percent. The 2004 funding ratio is 109 percent, despite the impact of the same bad investment markets during the early 2000s as other pension funds. Reviewing the adequacy of contributions since 1991, we note that the fund has a contribution sufficiency in every year. The highest sufficiency was 7.79 percent of pay in 1999. The most recent sufficiency was 2.85 percent of payroll.

The normal cost for this plan is high, since this is a public safety plan. The normal cost has displayed a fairly steady upward trend since 1991, with a normal cost of 19.02 percent in that year, increasing to 23.0 percent by 2004. Improved retirement benefits and accompanying changes in disability benefits, which are computed the same as the retirement benefits but with a minimum floor, contributed to that increase in normal cost, along with some impact due to actuarial assumption changes. The following notes some of the years where significant changes in plan benefits or assumptions occurred.

- In 1993, a cap which prohibited any service credit accrual after age 60 was removed from law, in an effort to avoid age discrimination concerns. The change had almost no discernable impact on normal cost.
- In 1995, a noticeable increase in normal cost occurred, increasing from 20.08 percent a year earlier to 21.21 percent. A cause of this change was an increase in the accrual rate used to compute the retirement benefits, from 2.5 percent of the high-five per year of service, to 2.65 percent. Corresponding increases were made in the disability benefit provisions. The employee contribution rate was increased to help cover the added cost.
- In 1997, several changes occurred in the plan. The accrual rate was increased again, from 2.65 percent to 3.0 percent. This noticeably increased benefits at the time of retirement, but a corresponding change in the operations of the State Board of Investment (SBI) Post Fund reduced expected post-retirement adjustments by one percent per year. Disability benefits were revised to correspond to the changes in the retirement annuity accrual rate. Subsidized early retirement benefits were created. Previously, individuals retiring early had to take an actuarial reduction. An actuarial reduction requires that benefits must be reduced so that they have the same lifetime value as if the individual had delayed receipt until normal retirement age. This was revised to require a reduction of only .2 percent per month for each month prior to normal retirement age, which is considerably less than an actuarial reduction. Given these changes, the normal cost increased from 21.33 in 1996 to 21.91 percent in 1997. Another change occurring in 1997 is that negative amortization was authorized for this plan, creating a negative 6.39 percent amortization factor, considerably reducing the total contribution requirements. The employee and employer contribution rates were reduced considerably. The contribution sufficiency was 5.33 percent of payroll, but this was the first year in which the total contributions, 21 percent of pay, were less than the normal cost plus expenses, which were 22.06 percent of pay.
- In 1999, the early retirement benefit was further subsidized, requiring only a .1 percent per month reduction, rather than .2 percent, for each month younger than age 55 at the time of retirement. The impact in normal cost seems negligible, from 22.5 percent in 1998 to 22.62 percent in 1998.
- In 2000 numerous changes occurred, although they seem to have had little impact on normal cost. Revisions were adopted in the male and female pre-retirement and post-retirement mortality tables, the male and female post-disability mortality table, retirement age, and separation (termination) assumptions. Statutory revisions included a revision in select-and-ultimate salary increase assumptions. The Legislature also revised the way the actuarial value of assets is computed, moving to a system based on market value and weighted past deviations between the expected value of assets assuming 8.5 percent investment returns, and the actual value of assets given the investment return that actually occurred. Another newly enacted provision extended the amortization date from 2020 to 2030.

Police State Aid and Excess Police State Aid

Employers contributing to the State Patrol Plan receive state police aid to finance the employer contribution to the fund. Any increase in employer contribution rates to this fund will reduce excess police state aid and impact the additional amortization aid program that is financed by excess police state aid.

Police state aid is generated by a two percent tax on automobile insurance premiums. All or nearly all public employers who employ police officers share in receiving police state aid, which is allocated on a per officer basis. The employers who make employer contributions to the State Patrol Plan share in this aid. Under law, any aid amount in excess of the employer's prior year employer contribution requirement to the public safety plan is declared to be excess police state aid. In 2003, the automobile insurance tax generated $64.3 million in revenue, which amounted to $7,497 per officer. In most cases, this is more than is needed to cover the employer contribution to the public safety plan. Of the $64.3 million in police aid, $14.2 million was in excess of amounts needed and was declared to be excess police state aid.

The excess police state aid is held in a holding account in the state's general fund. From the amount allocated to the holding account, $900,000 is allocated annually to fund the ambulance service personnel longevity award and incentive program, and if a police officer stress reduction program is created by law, the appropriation for that program is to be deducted from the excess police state aid holding account. Of what remains, half is used to fund the additional amortization aid program under Section 423A.02, and the remainder cancels to the general fund.

Additional Amortization Aid Program

The additional amortization aid program provides additional funding to local police or paid fire relief associations with unfunded liabilities, including those that consolidated into PERA-P&F and had unfunded liabilities to retire at the time that these consolidation accounts were merged into PERA-P&F. Of the program's funding, 64.5 percent is allocated to ex-PERA-P&F consolidation accounts which had unfunded liabilities. Another 34.2 percent of the funding goes to the Minneapolis Police Relief Association, and a final 1.3 percent of the funding goes to the city of Virginia, to assist in covering unfunded obligations in its Virginia Fire Department Relief Association trust account.

When the Minneapolis Police Relief Association or the Virginia Fire Department Relief Association reaches full funding, the amount that had been allocated for that local relief association will be reallocated, with 49 percent of that reallocation going to the Minneapolis Teachers Retirement Fund Association (MTRFA), 21 percent to the St. Paul Teachers Retirement Fund Association (SPTRFA), and 30 percent as additional funding to support the minimum fire state aid program.

Current Situation of State Patrol Plan, Based on Actuarial Reports

A review of past actuarial reports and the current 2004 actuarial report indicates that at the present time the total contributions are a few percent less than normal cost plus expenses, but the shortfall is more than covered by negative amortization of surplus assets, creating a 2.85 percent contribution sufficiency. If all existing actuarial assumptions were to hold in the future, including the assumed annual 8.5 percent investment return, the excess assets would slowly be reduced due to the negative amortization, and at some point, perhaps several years or perhaps a decade or more in the future, the negative amortization factor would no longer be adequate to cover the difference between the contributions and the normal cost plus expenses. At that point, the fund would begin to run contribution deficiencies, although the fund would be more than fully funded when this occurred.

In a realistic setting but with unchanged actuarial assumptions, the outcome is less certain. Plan experience will depart from the assumptions, and investment markets are rarely average, tending to go through periods of above-average returns followed by periods of below-average returns. A period of strong investment markets could increase funding ratios and the amount of negative amortization, sustaining the contribution sufficiencies. Weak investment markets would have the opposite effect, harming the State Patrol funding ratio, reducing or eliminating the negative amortization, and creating deficiencies in contribution requirements.

Recent Experience Study Results

Mercer Human Resources Consulting, the Minnesota State Retirement System (MSRS) actuary, completed a State Patrol Plan experience study in 2004 covering the 1998-2003 period. The results of that experience study lead to recommendations for revising demographic actuarial assumptions which, if adopted by the Commission, would considerably increase plan costs and the required contributions. Revising demographic assumptions does not require a revision of law, but it does require review and approval by the Commission. If the Commission does not adopt the changes, the old assumptions would continue to be used in the valuations.

The MSRS actuary commented on three problem areas, as follows:

1. Withdrawal. Although the current assumptions already assume very low turnover compared to a general employee plan, actual turnover for members who had three or more years of service was less than half the predicted numbers. In contrast, those with less than three years of service had twice as many terminations as expected.

2. Retirement. The assumed retirements at age 55, the normal retirement age for this fund, fit reasonably well, but early retirements are more than predicted for ages 50 to 53, and more retirements are occurring at age 56 than predicted.

3. Mortality. Retired males and females are living longer than expected. The sample for active member mortality was too small to draw meaningful conclusions.

Mercer developed specific recommendations to revise withdrawal assumptions (to introduce use of select-and-ultimate rates, with different rates to apply during the first three years of service), to revise retirement age assumptions, and to strengthen the pre- and post-retirement mortality assumptions, including building in a slight cushion for future improvements in lifespan.

The proposed changes were reviewed in June 2004 by Thomas Custis, consulting actuary for Milliman USA, which at that time was the actuarial firm retained by the Legislative Commission on Pensions and Retirement. He supported the suggested changes in the withdrawal assumption, did not object to the revised retirement age assumptions, but he disagreed with the specific proposed retiree mortality assumptions. Although he recognized a need to revise mortality, he was concerned about the extent of the proposed change. Under the Mercer mortality proposal, State Patrol Plan retirees were assumed to live longer than retirees from the MSRS-General Plan. The MSRS-General Plan assumption was revised not long ago and should be a reasonable reflection of actual mortality for general employees. The State Patrol Plan is a public safety plan in its design, reflecting a belief that the stress and danger of the work warrants high benefits and a low retirement age. Employment stress may have some negative impact on life expectancy. There seems little reason to support an opposite impact, that State Patrol Plan retirees should live longer than retired general employees. Mr. Custis suggested that the proposed Mercer mortality recommendations should be scaled back somewhat, and the suggested revision was accepted by the MSRS actuary.

Proposed Actuarial Assumption Changes

The proposed actuarial assumption changes, as revised following the review by Mr. Custis, are as shown in the following three tables. The information is as provided by Minnesota State Retirement System (MSRS), and displays the current and proposed turnover, retirement age, and mortality assumptions, respectively.

Turnover acts to reduce plan costs because, at least for those who terminate with little service, the best option is to take a refund. The refund includes employee contributions plus six percent interest. The remaining investment earnings on those contributions, plus the employer contributions and all investment earnings on those contributions, stay in the fund and are used to finance benefits for those who remain.

The proposed turnover assumptions, in the first table below, indicate a considerable reduction in assumed turnover. Less turnover will increase plan contribution rate requirements, although the impact from this change will not be significant in this plan, because turnover is minimal even under the existing assumptions. Retention definitely is not a problem in this plan.

The turnover assumption in the table for each age is expressed as the number of terminations in an assumed population of 10,000. Alternatively, these could be expressed as percentages. For example, at age 20 under the proposed assumptions it is expected that there will be 147 terminations during the year per 10,000 assumed employees or, alternatively, the assumed probability that a worker who is age 20 will terminate during the year is 1.47 percent. At age 25, there are expected to be 113 terminations per 10,000 assumed employees, or a 1.13 percent probability of terminating. At age 35, the probability of terminating is .47 percent. These probabilities decrease with age.

During the first three years of employment for any given employee, the probabilities reflected in the table will not be used. Instead, the assumed probability of terminating will be 2.5 percent in each of those first three years, or 250 terminations per 10,000 individuals.

Table 1
Turnover (Separation) Assumptions – Current and Proposed Rates
State Patrol Retirement Plan

Age	Current Assumption Per 10,000 Occurrences Male	Female	Current Assumption Percentages	Proposed Assumption* Per 10,000 Occurrences Male	Female	Proposed Assumption* Percentages
20	220	220	2.2%	147	147	1.47%
21	210	210	2.1%	140	140	1.40%
22	200	200	2.0%	133	133	1.33%
23	190	190	1.9%	127	127	1.27%
24	180	180	1.8%	120	120	1.20%
25	170	170	1.7%	113	113	1.13%
26	160	160	1.6%	107	107	1.07%
27	150	150	1.5%	100	100	1.00%
28	140	140	1.4%	93	93	.93%
29	130	130	1.3%	87	87	.87%
30	120	120	1.2%	80	80	.80%
31	110	110	1.1%	73	73	.73%
32	100	100	1.0%	67	67	.67%
33	90	90	.9%	60	60	.60%
34	80	80	.8%	53	53	.53%
35	70	70	.7%	47	47	.47%
36	60	60	.6%	40	40	.4%
37	60	60	.6%	40	40	.4%
38	60	60	.6%	40	40	.4%
39	60	60	.6%	40	40	.4%
40	60	60	.6%	40	40	.4%
41	60	60	.6%	40	40	.4%
42	60	60	.6%	40	40	.4%
43	60	60	.6%	40	40	.4%
44	60	60	.6%	40	40	.4%
45	60	60	.6%	40	40	.4%
46	60	60	.6%	40	40	.4%
47	60	60	.6%	40	40	.4%
48	60	60	.6%	40	40	.4%
49	30	30	.3%	20	20	.2%
50+	0	0	0	0	0	0

* Age-related rates apply after the three-year select period. During the first three years of employment, the rate is 2.50 per 10,000 occurrences or 2.5 percent.

Table 2 displays the change in retirement assumptions, again in the form of occurrences per 10,000. Under the proposed assumptions, seven percent of employees age 50 will retire in that year, 60 percent of employees age 55 will retire in that year, and all employees who remain to age 60 are assumed to retire at age 60. The proposed changes will increase cost. Early retirement in this plan is subsidized, and more individuals are expected to retire in the earliest eligible ages (age 50 through 53) than in the existing table. Also, it will be assumed that no employees remain after age 60.

Table 2
Retirement Age Assumptions – Current and Proposed Rates
State Patrol Retirement Plan

Age	Current Assumption Per 10,000 Occurrences Male	Female	Current Assumption Percentages	Proposed Assumption Per 10,000 Occurrences Male	Female	Proposed Assumption Percentages
50	200	200	2.0%	700	700	7.0%
51	200	200	2.0%	700	700	7.0%
52	200	200	2.0%	700	700	7.0%
53	200	200	2.0%	700	700	7.0%
54	2,000	2,000	20.0%	700	700	7.0%
55	6,000	6,000	60.0%	6,000	6,000	60.0%
56	2,000	2,000	20.0%	4,000	4,000	40.0%
57	2,000	2,000	20.0%	2,000	2,000	20.0%
58	2,000	2,000	20.0%	2,000	2,000	20.0%
59	2,000	2,000	20.0%	2,000	2,000	20.0%

Age	Current Assumption Per 10,000 Occurrences Male	Female	Current Assumption Percentages	Proposed Assumption Per 10,000 Occurrences Male	Female	Proposed Assumption Percentages
60	2,000	2,000	20.0%	10,000	10,000	100.0%
61	2,000	2,000	20.0%	0	0	0
62	5,000	5,000	50.0%	0	0	0
63	5,000	5,000	50.0%	0	0	0
64	5,000	5,000	50.0%	0	0	0
65	10,000	10,000	100.0%	0	0	0
66	0	0	0	0	0	0
67	0	0	0	0	0	0
68	0	0	0	0	0	0
69	0	0	0	0	0	0
70	0	0	0	0	0	0

Table 3 displays the information provided by the Minnesota State Retirement System (MSRS) for mortality changes. The mortality tables are named and are meaningful for actuaries but, for Commission purposes, displaying an actual set of probabilities of death or probabilities of survival would be more useful. The actuaries do indicate that the change in mortality assumptions is the largest contributor to the increased plan liabilities and cost. A change is proposed in the pre-retirement mortality table although the Mercer actuary indicated that the sample size in the experience study was too small to be useful. The Commission may wish to ask Dave Bergstrom, the MSRS Executive Director, how this proposed pre-retirement table was selected.

Table 3
Mortality Assumptions - Current and Proposed Tables
State Patrol Retirement Plan

		Current Assumption		**Proposed Assumption**
Pre-Retirement	Male:	1983 Group Annuity Mortality set back 1 year	Male:	1983 Group Annuity Mortality set back 5 years
	Female:	1983 Group Annuity Mortality	Female:	1983 Group Annuity Mortality set back 2 years
Post-Retirement	Male:	1983 Group Annuity Mortality set forward 2 years	Male:	1983 Group Annuity Mortality set back 2 years
	Female:	1983 Group Annuity Mortality set forward 2 years	Female:	1983 Group Annuity Mortality set back 1 year

<u>Impact on Plan</u>

Table 4 below is information provided by Mercer and MSRS demonstrating the impact of each of the proposed changes on July 1, 2002 actuarial results. The mortality change has by far the largest impact, adding 5.5 percent of pay to the contribution requirements. The total impact from all of the assumption changes combined is 6.5 percent of pay, which would have increased the total required contributions in 2002 from 14.3 percent of pay to 20.8 percent of pay.

Table 4
Impact of Recommended Assumption Changes as of July 1, 2002
State Patrol Retirement Plan

	Before Assumption Changes	Impact of Assumption Changes: Mortality	Withdrawal	Retirement	Total	After Assumption Changes
Normal Cost	22.6%	1.1%	0.1%	0.5%	1.7%	24.3%
Supplemental Contribution	-8.5%	4.4%	0.0%	0.4%	4.8%	-3.7%
Expense Allowance	0.2%	0.0%	0.0%	0.0%	0.0%	0.2%
Total Required Contribution	14.3%	5.5%	0.1%	0.9%	6.5%	20.8%
Statutory Contributions	21.0%					21.0%
Sufficiency/(Deficiency)	6.7%					0.2%

The impact of these changes on the 2002 valuation as displayed in a presentation comparable to that used in the attachment is shown below.

Table 5
Impact of Actuarial Changes on 2002 State Patrol Valuation

	2002		Difference Between 2002 and Impact of Changes		Impact of Changes on 2002 Valuation	
Membership						
Active Members		810				810
Service Retirees		577				577
Disabilitants		29				29
Survivors		156				156
Deferred Retirees		27				27
Nonvested Former Members		11				11
Total Membership		1,610				1,610
Funded Status						
Accrued Liability		$510,344,000		$45,554,000		$555,898,000
Current Assets		$591,383,000				$591,383,000
Unfunded Accrued Liability		($81,039,000)		$45,554,000		($35,485,000)
Funding Ratio	115.88%		(9.50%)		106.38%	
Financing Requirements						
Covered Payroll		$51,473,000				$51,473,000
Benefits Payable		$33,031,000				$33,031,000
Normal Cost	22.62%	$11,649,000	1.68%	$858,939	24.30%	$12,507,939
Administrative Expenses	0.20%	$103,000			0.20%	$103,000
Normal Cost & Expense	22.82%	$11,752,000	1.68%	$858,939	24.50%	$12,610,939
Normal Cost & Expense	22.82%	$11,752,000	1.68%	$858,939	24.50%	$12,610,939
Amortization	(8.48%)	($4,365,000)	4.78%		(3.70%)	($4,365,000)
Total Requirements	14.34%	$7,387,000	6.46%	$858,939	20.80%	$8,245,939
Employee Contributions	8.40%	$4,324,000			8.40%	$4,324,000
Employer Contributions	12.60%	$6,486,000			12.60%	$6,486,000
Employer Add'l Cont.	0.00%	$0			0.00%	$0
Direct State Funding	0.00%	$0			0.00%	$0
Other Govt. Funding	0.00%	$0			0.00%	$0
Administrative Assessment	0.00%	$0			0.00%	$0
Total Contributions	21.00%	$10,810,000			21.00%	$10,810,000
Total Requirements	14.34%	$7,387,000	6.46%	$858,939	20.80%	$8,245,939
Total Contributions	21.00%	$10,810,000			21.00%	$10,810,000
Deficiency (Surplus)	(6.66%)	($3,423,000)	6.46%	$858,939	(0.20%)	($2,564,061)

A problem for the Commission is that the actuary demonstrated the impact on the 2002 actuarial valuation results, which seems odd given that the experience study included experience through 2003. The results will not hold exactly if applied against the 2004 valuation.

Discussion

S.F. 998 (Betzold, by request); H.F. 1754 (Smith) increases the employee contribution rate from 8.4 percent to 9.1 percent on July 1, 2005, and to 9.8 percent on July 1, 2006. The employer contribution rate is increased from 12.6 percent of salary to 13.6 percent on July 1, 2005, and to 14.6 percent of salary on July 1, 2006. The sum of the employee and employer contribution increases is 3.4 percent of salary.

The bill raises various policy issues, as follows:

1. Adoption of Actuarial Assumption Changes. The Commission may wish to decide whether to adopt the assumption changes proposed by the MSRS actuary, as revised after comments from Mr. Custis, who had been the lead actuary on the Milliman USA team that the Commission retained until last session. If these are not adopted, the existing assumptions would continue to be used in future actuarial valuations. The Commission might choose to delay any adoption until the interim, if the Commission feels it does not have sufficient time to study and address the matter at this time. If the Commission chooses not to adopt these assumptions, there is little reason to further consider this bill, which presumably revises contribution rates to reflect the proposed actuarial assumptions.

2. Contribution Increase/Increase Amount. If the Commission does adopt the assumption changes, the issue is whether there is sufficient information supporting a need for a contribution increase. The information provided by the MSRS actuary, which was presented in Table 4 above, indicates that in

the 2002 valuation, a slight sufficiency would remain after adopting the new assumptions, lessening the need for an increase in contributions. The result could be different if the actuary had demonstrated the impact on the most recent valuation. MSRS is requesting increased contributions of 3.4 percent of payroll. It is not at all clear why that is an appropriate amount. The Commission may wish to have MSRS demonstrate why it believes an increase is justified, and why 3.4 percent is a proper increase amount.

3. Phase-In Issues. The issue is the phase-in of increases over a multi-year period, with the first increase scheduled to occur on July 1, 2005, and the second to occur on July 1, 2006. The Commission may wish to not use a phase-in period. Implementing the full increase in a single step will decrease the necessary contributions marginally while a phase-in period will increase the total cost marginally.

4. Cost/Additional Amortization Aid Issues. The issue is the added employer contributions required under this bill. The additional employer contribution will be \$.6 million in 2005 and \$1.1 million in 2006. Thereafter, the \$1.1 million amount for 2006 will increase over time by the rate of increase in covered payroll. Since most or possibly all of the employer contribution increase will be funded out of state police aid, this will reduce the amount of excess police state aid, which will impact the state general fund since a considerable portion of excess police state aid cancels to the state general fund, and will impact the additional amortization aid program which is funded out of a portion of the remainder. This in turn will have implications for various ex-consolidation accounts (Anoka Police, Columbia Heights Police, Crookston Fire, Crookston Police, Duluth Fire, Duluth Police, Faribault Fire, Faribault Police, Hibbing Police, Hibbing Fire, Mankato Fire, St. Cloud Fire, St. Paul Fire, South St. Paul Fire, South St. Paul Police, Winona Fire, and Winona Police), and for Minneapolis Police, Virginia Fire, the MTRFA, SPTRFA, and numerous communities that receive minimum fire state aid.

   If there are some members of this State Patrol Plan who are not sworn officers and are not included in police state aid, any increase will impact the budget of the employer.

5. Position of Employee Groups. The Commission may wish to have testimony from State Patrol officers or others covered by this plan to hear their concerns and to determine the level of their support for this bill.

6. Uniformity Issues. The bill could add to uniformity problems. Plans are truly uniform when similar employees have the same benefit provisions and pay the same percentage of pay for that pension plan coverage. The State Patrol Plan and the PERA-P&F Plan provide comparable benefits, but contribution rates between these plans are not uniform. It is not clear, should the Commission and Legislature choose to consider the various contribution rate increase bills that have been introduced this session, whether rates will become more uniform for similar plans. In the longer term, the Commission may wish to consider other options, such as merging comparable plans to create a system where similar individuals are paying the same percentage of pay for their pension coverage.

Potential Amendments for Commission Consideration

Amendment LCPR05-127 could be used if the Commission decided that only the first increase should be permitted, but not the later one that would occur a year later, to be effective on a date to be set.

Amendment LCPR05-128 includes the total increase proposed by the bill, but with no phase-in, effective on a date to be set. Either LCPR05-127 or LCPR05-128 could be further modified by verbal amendment to revise the level of the new contribution rates.

Amendment LCPR05-129, an alternative to either of the above two amendments, keeps the phase-in period and new rates as stated in the bill, but moves them back one year with the first increase occurring on July 1, 2006, rather than 2005, and the final increase occurring on July 1, 2007, instead of in 2006.

Resolution 05-1 is the statement of approval that the Commission would need to adopt to have the proposed assumptions adopted and used in future actuarial valuations.