



MILLIMAN & ROBERTSON, INC.

Actuaries & Consultants

Internationally WOODROW MILLIMAN

Suite 400, 15800 Bluemound Road, Brookfield, Wisconsin 53005-6069

Telephone: 414/784-2250

Fax: 414/784-4116

February 15, 1996

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



RE: Faribault Policemen's Benefit Association

Dear Larry:

Enclosed are three copies of our special supplementary study for the above-referenced relief association.

Sincerely,

Thomas K. Custis, F.S.A.
Consulting Actuary

TKC/bh

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SECRETARY OF STATE

Enclosure

cc: Mark Dayton, State Auditor
Joan Grove, Secretary of State
John Gunyou, Commission of Finance
Jim Nobles, Legislative Auditor
David Bjelland, City of Faribault

Howard Bicker, Executive Director -
State Board of Investment
Laurie Hacking, Executive Director - PERA
Dan Petersen, Gabriel, Roeder, Smith

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**FARIBAULT POLICEMEN'S
BENEFIT ASSOCIATION**

**SUPPLEMENTARY ACTUARIAL CALCULATIONS
PRELIMINARY TO CONSOLIDATION**

February 15, 1996

REPORT PRELIMINARY TO CONSOLIDATION

The purpose of this report is to determine the expected, initial additional municipal contribution required by consolidating the Benefit Association with PERA Police and Fire (P&F) as specified in Minnesota Statutes, Chapter 353A.

The consolidation process provides the Benefit Association members and their beneficiaries an opportunity to change their retirement benefit plan coverage by electing between Benefit Association and P&F benefits. In order to evaluate the financial aspects of consolidation, the costs in Table 1 have been determined under three possible outcomes - all individuals elect Benefit Association benefits (column 2), all individuals elect P&F benefits (column 3) and each individual elects the benefit plan which has the greater total benefit plan actuarial value (column 4). These supplementary calculations have been prepared using the assumptions proposed for adoption for use in the July 1, 1996 valuation and reflect asset and salary experience through 12/31/95.

Table 1 also compares the consolidation calculations to those found in the actuarial valuation of the Benefit Association as of December 31, 1994, prepared by Gabriel, Roeder, Smith & Company. Table 2 shows a summary of the data and lists the major assumptions.

Whenever a retired member or the retired member's surviving spouse elects P&F benefits, the reserve for that benefit must be transferred to the Minnesota Post-Retirement Investment Fund (MPRIF). The amount to be transferred if all benefit recipients who are eligible for MPRIF elect P&F benefits is \$3,634,560 which is less than the current market value of assets.

Current benefit recipients who are not eligible for MPRIF will be paid directly by PERA. Their benefits will be escalated by the same percentage that applies to MPRIF annuitants; however, no funds are required to be transferred to MPRIF.

Although the costs shown in Table 1 represent an appropriate range of estimates available today, the costs are subject to change in future years following the consolidation. The true cost of any pension plan is not completely determined until the last benefit payment has been made to the last benefit recipient. Prior to that date, annual budgets are determined by making assumptions regarding future experience.

Each year in the future following consolidation, municipal costs will be redetermined based on the elections made by members and beneficiaries and will consist of the following components:

- ♦ Regular Contributions (line 8): A variable cost which will depend on the compensation of members still active.
- ♦ Additional Contributions (line 7): A fixed cost which is an annual amount required to amortize the initial unfunded consolidation actuarial liability shown in column 4 of Table 1 by December 31 of the year 2010. In this particular case, the additional contributions are equal to \$247,924.
- ♦ Experience Contributions (undeterminable at this time): A variable cost which will depend on actual experience. Any actuarial gains will reduce future contributions and actuarial loss will increase future contributions.

TABLE 1

FARIBAULT POLICEMEN'S BENEFIT ASSOCIATION ACTUARIAL CALCULATIONS

	Prior Valuation Relief Association (1)	Election of Benefits Under the Consolidation		
		All Elect Relief Association (2)	All Elect PERA P&F (3)	All Elect Greater Value (4)
Date of Calculations	12/31/94	12/31/95	12/31/95	12/31/95
Actuarial Present Value of Projected Benefits	\$6,801,351	\$6,987,081	\$6,945,806	\$7,712,934
Actuarial Accrued Liability	6,078,273	6,500,338	6,184,619	6,966,768
Normal Cost	79,868	59,488	78,154	78,886
Determination of Municipality Contributions (before adjustment for state aid)				
1. Actuarial Present Value of Projected Benefits	\$6,801,351	\$6,987,081	\$6,945,806	\$7,712,934
2. Present Value of Future Member Contributions	NA	281,666	342,674	332,605
3. Present Value of Future Regular Municipal Contributions	NA	422,499	514,012	498,908
4. Market Value of Assets	4,172,806	4,822,603 *	4,822,603 *	4,822,603 *
5. Minimum Contribution Required to Fund MPRIF Benefits	NA	NA	0	0
6. Unfunded Amount to be Amortized (1-2-3-4)	1,871,675 **	1,460,313	1,266,517	2,058,818
7. Additional Municipal Contribution (6 amortized by 2010)	175,958	175,852 ***	152,515 ***	247,924 ***
8. Regular Municipal Contribution	47,500 ****	50,396	55,878	55,878
9. Total Municipal Contribution (7+8)	223,458	226,247	208,392	303,801
10. Supplemental Contribution Required (5-9 not less than \$0)	NA	NA	0	NA

* Equal to market value reported by Faribault Policemen's and assuming no changes by the State Board of Investments.

** Based on the Actuarial Accrued Liability less the Actuarial Value of Assets of \$4,206,598.

*** An increase (decrease) in Market Value of \$100,000 will decrease (increase) the municipal contribution by \$12,042.

**** Equals the Employer Normal Cost.

TABLE 2

FARIBAULT POLICEMEN'S BENEFIT ASSOCIATION ACTUARIAL CALCULATIONS

	Consolidated Calculation		
	Relief Association	All Elect Relief Association	All Elect PERA P&F
	(1)	(2)	(3)
NUMBER IN PLAN			
Active Members	10	10	10
Deferred Former Members	0	0	0
Retired Members and Beneficiaries	18	17	17
MEMBER CONTRIBUTION			
Percentage	8.0%	7.6%	7.6%
Compensation Base	404,599	442,069	490,155
Contribution	32,368	33,597	37,252
MUNICIPAL CONTRIBUTION			
Percentage	11.74%	11.4%	11.4%
Compensation Base	404,599	442,069	490,155
Contribution	47,500	50,396	55,878
INTEREST			
- Before Retirement	5.0%	8.5%	8.5%
- After Retirement	5.0%	8.5%	5.0%
SALARY INCREASE	3.5%	graded rates	graded rates
POST-RETIREMENT BENEFIT INCREASE	5.00%	5.0%	N/A
RETIREMENT AGE/SERVICE	58/20	58/20	60/3
OTHER ASSUMPTIONS	Per Faribault Policemen's Benefit Association	Per PERA P&F Recommended New Assumptions	Per PERA P&F Recommended New Assumptions
BENEFITS	Per Faribault Policemen's Benefit Association	Per Faribault Policemen's Benefit Association	Per PERA P&F Report