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January 31, 2013

CONFIDENTIAL

Ms. Mary Vanek
Executive Director
Public Employees Ret. Assoc. of MN
60 Empire Drive, Suite 200
St. Paul, MN 55103

Re: Projection of Contributions and Funding Status – Minneapolis Employees Retirement Fund

Dear Mary:

Attached are 30-year projections of estimated funded status, required contributions, and statutory contributions under three asset return scenarios for the Minneapolis Employees Retirement Fund (MERF). The estimates are based on participant data, assumptions, methods, and plan provisions as of July 1, 2012 as detailed in the MERF Actuarial Valuation Report as of July 1, 2012.

As required by the State of Minnesota Standards for Actuarial Work, the projections reflect three asset return scenarios. The statutory investment return assumption is a 5-year select and ultimate approach with rates of 8.0% for the period July 1, 2012 to June 30, 2017 and 8.5% thereafter. The scenarios assume future investment returns of 1.5% more than the assumed rate, the assumed rate, and 1.5% less than the assumed rate.

The estimates are based on the market value of assets with no smoothing of investment gains or losses. Administrative expenses are assumed to increase 4.00% a year. Payroll is expected to decrease per the valuation assumptions as active members retire. In all scenarios, the valuation interest rate used to discount liabilities was the single effective interest rate used in the July 1, 2012 valuation of 8.25%, which produces a similar liability stream as trending to a liability that reflects the expiration of the 5 year select period on June 30, 2017.

Normal cost is assumed to trend downward as active members retire and also to reflect the expiration of the 5 year select period on June 30, 2017.

Benefit payments are based on the assumptions and methods described in this letter.

Per statute, if the funded ratio of this plan reaches 80%, the MERF division will be merged with the PERA General Employees Retirement Plan (GERP). Upon consolidation, the remaining unfunded liability will be amortized as a level dollar amount through June 30, 2031. The amortization payments will be based on the assumptions of the GERP. The funding ratio of this plan is expected to exceed 80% in 2017, 2019 and 2024 under the 10.0%, 8.5% and 7.0% investment return scenarios, respectively. The enclosed projections do not extend beyond the projected consolidation date.

Postretirement Benefit Increases

A very significant assumption affecting the projected estimates is the expectation of annual increases in the benefits being paid to retirees and beneficiaries. If PERA GERP reaches a funding ratio of 90% (on a market value of assets basis) in the future, post-retirement increases for MERF benefit recipients will revert to the 2.5% level.

The 2011 projection of the PERA GERP estimates the earliest attainment of a 90% funding ratio as follows:

7.0% scenario	2031
8.5% scenario	2026
10.0% scenario	2020

Source: January 31, 2012 letter from Mercer to Mary Vanek of PERA

Since the funding ratio of PERA GERP decreased between July 1, 2011 and July 1, 2012, and the funding ratio of MERF is expected to reach 80% before any of the dates shown above, we assumed a 1.0% postretirement benefit increase for all years. If the postretirement benefit increase was assumed to be 2.5% instead of 1.0%, the liabilities would be significantly greater than the liabilities shown in this report.

Comments

To the best of our knowledge and belief, the calculations were completed in accordance with the requirements of Minnesota Statutes, Section 356.215, and the requirements of the Standards for Actuarial Work established by the Legislative Commission on Pensions and Retirement.

This report should not be relied upon for any purpose other than the purpose described herein. Determinations of the financial results associated with the benefits described in this report in a manner other than the intended purpose may produce significantly different results. GRS is not responsible for the consequences of any unauthorized use.

The valuation was based upon information furnished by the Public Employees Retirement Association of Minnesota (PERA), concerning benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries.

Actuarial assumptions, including discount rates, mortality tables and others identified in this report, are prescribed by Minnesota Statutes Section 356.215 the Legislative Commission on Pensions and Retirement (LCPR), and the Trustees. These parties are responsible for selecting the plan’s funding policy, actuarial valuation methods, asset valuation methods, and assumptions. The policies, methods and assumptions used in this valuation are those that have been so prescribed and are described in the Actuarial Basis of the valuation report. PERA is solely responsible for communicating to GRS any changes required thereto.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.

Professional Qualifications

The signing actuaries are independent of the plan sponsor. We are not aware of any relationship that would impair the objectivity of our work.

The undersigned actuaries are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. In addition, Mr. Murphy meets the requirements of "approved actuary" under Minnesota Statutes Section 356.215, Subdivision 1, Paragraph (c).

This report has been prepared by actuaries who have substantial experience valuing public employee retirement systems. To the best of our knowledge and belief the information contained in this report is accurate and fairly presents the actuarial position of the Minneapolis Employees Retirement Fund as of the valuation date and was performed in accordance with the requirements of Minnesota Statutes Section 356.215, and the requirements of the Standards for Actuarial Work established by the LCPR. All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board and with applicable statutes.

Sincerely,

Bonita J. Wurst

Bonita J. Wurst, ASA, EA, MAAA

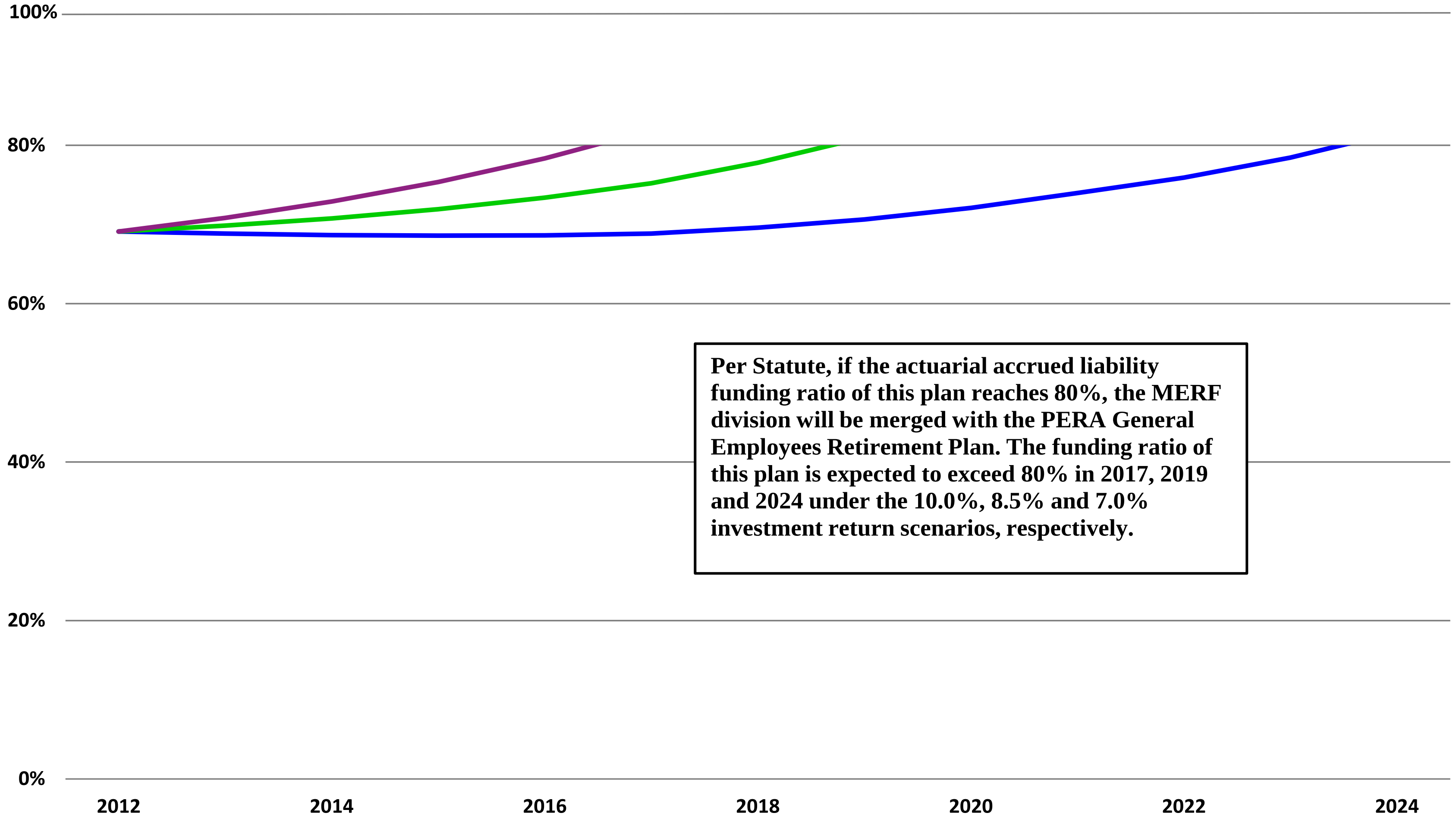
Brian B. Murphy

Brian B. Murphy, FSA, EA, MAAA, FCA

BJW/BBM:sc
Enclosures

Minneapolis Employees Retirement Fund
Projection of Funded Status
Assumes postretirement increases of 1.0% for all years

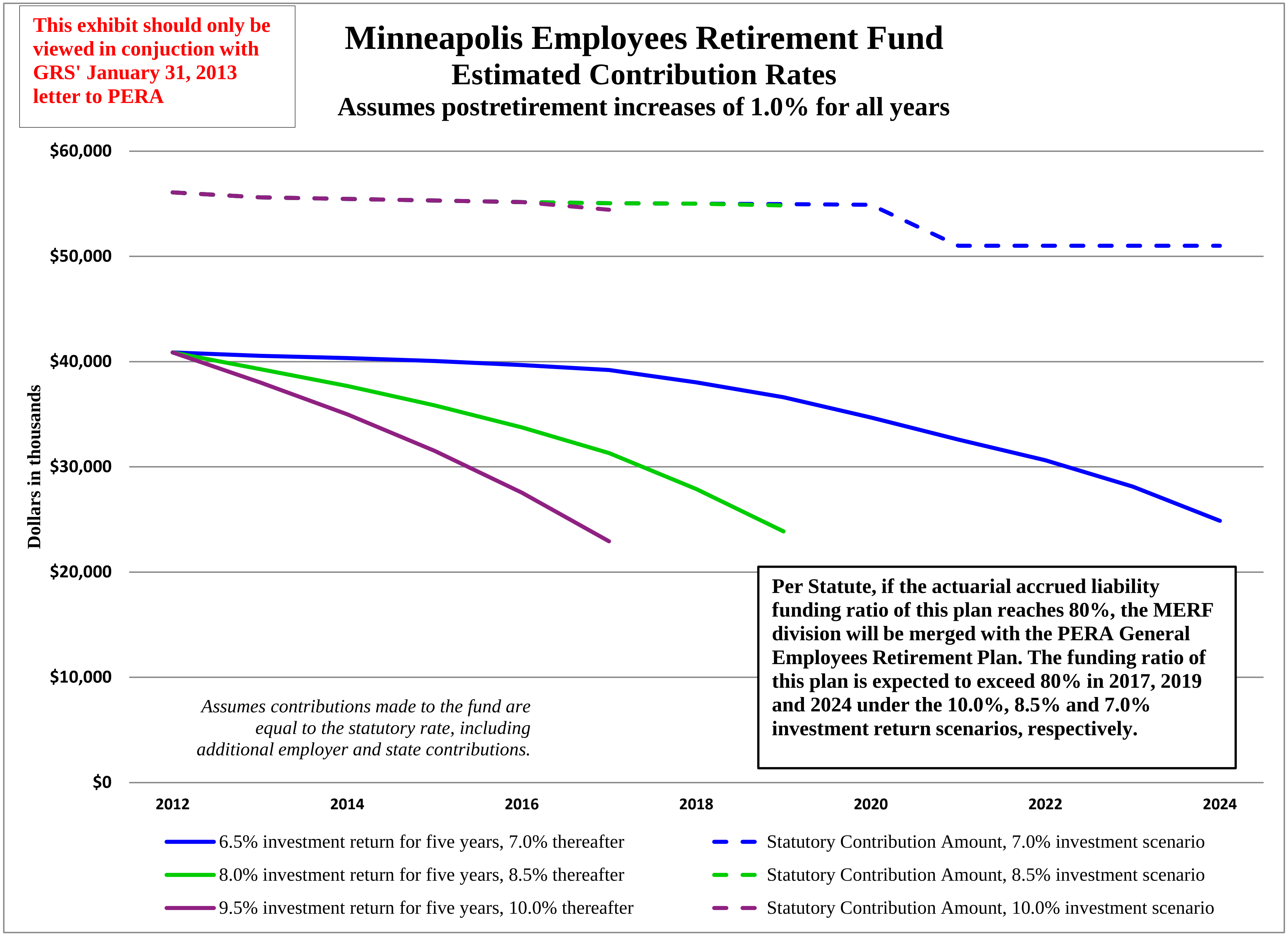
This exhibit should only be viewed in conjuction with GRS' January 31, 2013 letter to PERA



Per Statute, if the actuarial accrued liability funding ratio of this plan reaches 80%, the MERF division will be merged with the PERA General Employees Retirement Plan. The funding ratio of this plan is expected to exceed 80% in 2017, 2019 and 2024 under the 10.0%, 8.5% and 7.0% investment return scenarios, respectively.

6.5% investment return for five years; 7.0% thereafter
8.0% investment return for five years, 8.5% thereafter
9.5% investment return for five years, 10.0% thereafter

Assumes contributions made to the fund are equal to the statutory rate, including additional employer and state contributions.



This exhibit should only be viewed in conjuction with GRS' January 31, 2013 letter to PERA
Minneapolis Employees Retirement Fund
Estimated Contribution Rates
Assumes postretirement increases of 1.0% for all years
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
Dollars in thousands
2012
2014
2016
2018
2020
2022
2024
Assumes contributions made to the fund are equal to the statutory rate, including additional employer and state contributions.
Per Statute, if the actuarial accrued liability funding ratio of this plan reaches 80%, the MERF division will be merged with the PERA General Employees Retirement Plan. The funding ratio of this plan is expected to exceed 80% in 2017, 2019 and 2024 under the 10.0%, 8.5% and 7.0% investment return scenarios, respectively.
6.5% investment return for five years, 7.0% thereafter
8.0% investment return for five years, 8.5% thereafter
9.5% investment return for five years, 10.0% thereafter
Statutory Contribution Amount, 7.0% investment scenario
Statutory Contribution Amount, 8.5% investment scenario
Statutory Contribution Amount, 10.0% investment scenario

This exhibit should only be viewed in conjuction with GRS' January 31, 2013 letter to PERA

Minneapolis Employees Retirement Fund

Scenario: 6.5% for Five Years, 7.0% thereafter

Fiscal year beginning July 1

$ in Thousands	2012	2013	2014	2015	2016	2017	2018	2019
Contributions (% of Payroll)								
Statutory - Chapter 353	1,063.5%	1,738.2%	2,222.0%	2,976.2%	4,570.5%	7,565.5%	10,966.6%	20,802.7%
Required - Chapter 356	775.3%	1,267.3%	1,616.1%	2,155.1%	3,287.2%	5,387.4%	7,581.8%	13,859.5%
Sufficiency / (Deficiency)	288.2%	470.8%	605.8%	821.2%	1,283.3%	2,178.1%	3,384.9%	6,943.3%
Contributions								
Statutory - Chapter 353	56,069	55,610	55,454	55,312	55,168	55,061	55,011	54,959
Required - Chapter 356	40,876	40,546	40,334	40,051	39,677	39,209	38,032	36,615
Sufficiency / (Deficiency)	15,193	15,064	15,120	15,261	15,491	15,852	16,979	18,344
Funding Ratios								
Current Assets (MVA)	842,811	810,119	777,191	745,194	714,512	685,278	660,998	639,101
Actuarial Accrued Liability (AAL)	1,219,735	1,176,441	1,131,712	1,086,482	1,041,028	995,384	949,795	904,592
Unfunded AAL	376,924	366,322	354,521	341,288	326,516	310,106	288,797	265,491
Funding Ratio	69%	69%	69%	69%	69%	69%	70%	71%
Benefit Payments	138,799	136,503	133,365	129,927	126,441	122,719	118,714	114,724

Assumes annual postretirement increases of 1.0% for all years

Numbers may not add due to rounding

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Minneapolis Employees Retirement Fund

Scenario: 6.5% for Five Years, 7.0% thereafter

Fiscal year beginning July 1

$ in Thousands	2020	2021	2022	2023	2024
Contributions (% of Payroll)					
Statutory - Chapter 353	94,091.0%	*There are projected to be no more active members in this plan by the year 2021.*			
Required - Chapter 356	59,451.0%				
Sufficiency / (Deficiency)	34,640.0%				
Contributions					
Statutory - Chapter 353	54,913	51,000	51,000	51,000	51,000
Required - Chapter 356	34,696	32,584	30,623	28,125	24,869
Sufficiency / (Deficiency)	20,217	18,416	20,377	22,875	26,131
Funding Ratios					
Current Assets (MVA)	619,738	603,367	586,101	571,914	560,987
Actuarial Accrued Liability (AAL)	859,791	815,489	771,863	728,963	686,812
Unfunded AAL	240,053	212,122	185,762	157,049	125,825
Funding Ratio	72%	74%	76%	78%	82%
Benefit Payments	110,676	106,510	102,357	98,238	94,142

Assumes annual postretirement increases of 1.0% for all years

Numbers may not add due to rounding

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Minneapolis Employees Retirement Fund

Scenario: 8.0% for Five Years, 8.5% thereafter

Fiscal year beginning July 1

$ in Thousands	2012	2013	2014	2015	2016	2017	2018	2019
Contributions (% of Payroll)								
Statutory - Chapter 353	1,063.5%	1,738.2%	2,222.0%	2,976.2%	4,570.5%	7,565.5%	10,966.6%	20,758.7%
Required - Chapter 356	775.3%	1,227.8%	1,509.7%	1,929.2%	2,796.1%	4,303.2%	5,561.0%	9,033.6%
Sufficiency / (Deficiency)	288.2%	510.4%	712.2%	1,047.0%	1,774.4%	3,262.3%	5,405.7%	11,725.1%
Contributions								
Statutory - Chapter 353	56,069	55,610	55,454	55,312	55,168	55,061	55,011	54,842
Required - Chapter 356	40,876	39,282	37,678	35,854	33,750	31,319	27,895	23,866
Sufficiency / (Deficiency)	15,193	16,328	17,776	19,458	21,418	23,742	27,116	30,976
Funding Ratios								
Current Assets (MVA)	842,811	821,755	800,918	781,507	763,963	748,482	738,961	732,742
Actuarial Accrued Liability (AAL)	1,219,735	1,176,441	1,131,712	1,086,482	1,041,028	995,384	949,795	904,592
Unfunded AAL	376,924	354,686	330,794	304,975	277,065	246,902	210,834	171,850
Funding Ratio	69%	70%	71%	72%	73%	75%	78%	81%
Benefit Payments	138,799	136,503	133,365	129,927	126,441	122,719	118,714	114,724

Assumes annual postretirement increases of 1.0% for all years

Numbers may not add due to rounding

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Minneapolis Employees Retirement Fund

Scenario: 9.5% for Five Years, 10.0% thereafter

Fiscal year beginning July 1

$ in Thousands	2012	2013	2014	2015	2016	2017
Contributions (% of Payroll)						
Statutory - Chapter 353	1,063.5%	1,738.2%	2,222.0%	2,976.2%	4,570.5%	7,480.4%
Required - Chapter 356	775.3%	1,188.3%	1,401.8%	1,696.5%	2,282.3%	3,150.6%
Sufficiency / (Deficiency)	288.2%	549.9%	820.2%	1,279.7%	2,288.2%	4,329.8%
Contributions						
Statutory - Chapter 353	56,069	55,610	55,454	55,312	55,168	54,442
Required - Chapter 356	40,876	38,017	34,984	31,529	27,548	22,930
Sufficiency / (Deficiency)	15,193	17,593	20,470	23,783	27,620	31,512
Funding Ratios						
Current Assets (MVA)	842,811	833,391	824,994	818,914	815,701	815,675
Actuarial Accrued Liability (AAL)	1,219,735	1,176,441	1,131,712	1,086,482	1,041,028	995,384
Unfunded AAL	376,924	343,000	307,000	268,000	225,000	180,000
Funding Ratio	69%	71%	73%	75%	78%	82%
Benefit Payments	138,799	136,503	133,365	129,927	126,441	122,719

Assumes annual postretirement increases of 1.0% for all years.

Numbers may not add due to rounding