

Some Problem/Issue Areas Related to Minnesota Public Pensions

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A. Appropriate Approach to Providing Public Sector Pension Benefits.

1. Brief Background Information. The public sector at large and Minnesota in particular relies to a greater extent on defined benefit retirement plans than does the private sector nationally or in Minnesota.

Defined benefit retirement plans are an alternative to defined contribution plans. Retirement plans are categorized based on which of two potential variables (benefit levels or funding levels) is fixed. Defined benefit retirement plans utilize a formula, typically salary-related, to specify a certain level of benefits, leaving the funding of the plan as the variable. Defined contribution retirement plans, such as Individual Retirement Accounts (IRAs), 403(b) tax-sheltered annuities, and 401(k) plans, fix the level of the funding of retirement coverage, leaving the eventual retirement benefit variable because it is dependent on a number of factors.

The choice between defined benefit plans and defined contribution plans is not a choice between good and bad or right and wrong, but is a choice between competing valuable attributes. Defined benefit plans, for long-term employees, are more likely to produce an adequate benefit because it is benefit oriented, but also may produce unexpected future costs for the employer if assumptions about future economic and demographic experience are not matched. Defined contribution plans, for short duration employees, are more flexible and more portable, but do not provide sufficient benefit coverage for groups of employees, such as public safety employees, who face enhanced employment casualty risks.

2. Current Utilization of Defined Contribution Plan Coverage. Defined contribution plan coverage in Minnesota applies to the following groups of public employees:
 - Legislators and constitutional officers first elected after 1997;
 - Most legislative staff and State agency and department heads (with defined benefit plan option for long-term employees);
 - All University of Minnesota faculty;
 - Most Minnesota State Colleges and Universities System faculty since 1989 (State university and community college faculty) or since 1994 (technical college faculty);
 - Local elected officials elected since 2001;
 - Local government physicians and some ambulance or rescue squad personnel; and
 - Volunteer firefighters in 86 communities (13 percent of municipalities and 13 percent of all volunteer firefighters).
3. Desire or Need to Replicate Private Sector Benefit Practices. Defined contribution retirement plan coverage has been proposed for Minnesota public employees based, in whole or in part, on the reflection of a desire or a need to replicate private sector practices. Defined benefit pension coverage in the private sector and corresponding funding burdens have plagued "legacy" airlines, such as Northwest Airlines, and heavy industrial firms, such as Ford Motor Company.

Replication of private sector compensation and benefit practices is not currently part of the pension policy principles of the Legislative Commission on Pensions and Retirement, which express a preference for defined benefit plan coverage absent circumstances that make defined contribution plan coverage more appropriate and declares the purpose of public pension coverage to augment the public sector personnel and compensation system in assisting recruitment, retention, and career-end out-transitioning by providing retirement income, including Social Security, that is adequate and affordable.

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B. Inadequate Defined Benefit Plan Contribution Rates.

1. Brief Background Information. Under Commission Pension Policy Principles and longstanding practice, Minnesota defined benefit public pension plans other than volunteer firefighter relief associations are contributory plans, meaning that the funding requirement of the benefit plan is shared between the plan membership and participating employing units. Private sector defined benefit pension plans tend to be non-contributory plans, meaning that the employer/plan sponsor has total responsibility to fund the plan.

The funding requirement of Minnesota defined benefit plans is made up of three parts, the plan's normal cost, the plan's administrative expenses, and the plan's amortization requirement. Normal cost under the Entry Age Normal Actuarial Method used in Minnesota is the level percentage of covered pay figure calculated by the actuary that represents the average funding charge for active members for pension coverage. The administrative expenses are the costs of operating the plan without the inclusion of most investment expenses, which generally are netted against investment income. The amortization requirement is the debt service charge on the pension plan's unfunded actuarial accrued liability, which is a measure of past departures from full concurrent funding practices.

The Commission's policy on the allocation of pension funding costs differs between general employees and public safety employees, because of the greater employment risks of public safety employment and greater pension costs of those plans. For general public employees, under the Commission policy, the employee and employer should make matching contributions to meet the normal cost and the administrative expenses of the defined benefit pension plan and both the employee and the employer may be required to share some financial responsibility for funding the amortization requirement of the defined benefit pension plan. For protective and public safety employees covered by a statewide public pension plan, the employee should pay forty percent of the total actuarial costs of the defined benefit pension plan and the employer should pay sixty percent of the total actuarial costs of the defined benefit pension plan.

2. Current Contribution Deficiencies. Of the various statewide and major local retirement plans, all plans other than the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General), and the Local Government Correctional Employees Retirement Plan of the Public Employees Retirement Association (PERA-Correctional), have a contribution deficiency when the retirement plan utilizes the actuarial value of assets and all plans have a contribution deficiency when the retirement plan is valued using the market value of assets. After the progress of the current weak recovery from the past recession becomes clearer, it will be necessary to address these contribution deficiencies.

C. Disparity in Defined Benefit Plan Accrual Rates and Normal Retirement Ages.

1. Brief Background Information. In a defined benefit retirement plan, a retirement annuity is calculated, in part, utilizing benefit accrual rates, and is first payable in full at the normal retirement age or ages.

The benefit accrual rate is the percentage of the final average covered salary that is earned with each additional year of service rendered.

The normal retirement age is the earliest age at which a retirement annuity is payable without a reduction for an early commencement of the benefit.

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2. Current Disparities in Benefit Accrual Rates. The principal disparity in benefit accrual rates between general employee retirement plans with Social Security coverage is between TRA and MSRS-General, PERA-General, DTRFA, and SPTRFA, where TRA has a benefit accrual rate in the level benefit tier of 1.9 percent of final average salary per year of service credit for years after July 1, 2006, and the other retirement plans have a benefit accrual rate of 1.7 percent of final average salary per year of service credit for all past and all future years.

Additionally, there is a long-standing disparity in benefit accrual rates between the Judges Retirement Plan and the other general employee retirement plans with Social Security coverage, with the Judges Retirement Plan benefit accrual rates set at 2.7 percent per year of service for pre-July 1, 1980, service and 3.2 percent per year of service for post-June 30, 1980, service while the other general employee plans have benefit accrual rates of 1.7 percent and 1.9 percent.

For public safety plans, the plans covering licensed police officers, the State Patrol Retirement Plan and the Public Employees Police and Fire Retirement Plan (PERA-P&F), provide a consistent benefit accrual rate set at 3.00 percent per year of service credit. The plans covering correctional officers, where the public pension plan benefit supplements Social Security benefits, the benefit accrual rates are smaller than those public safety plans without Social Security coverage, with differing benefit accrual rates. The MSRS-Correctional plan has a 2.4 percent per year of service benefit accrual rate and the PERA-Correctional plan has a 1.9 percent per year of service credit benefit accrual rate.

Before 1997, when there was a benefit accrual rate disparity between TRA and the other general employee retirement plans, that disparity led to the enactment of benefit improvement legislation in 1997 (see Laws 1997, Chapter 233) that provided uniform benefit accrual rates among those retirement plans.

3. Current Disparities in Normal Retirement Ages. There is a disparity between coverage groups within the general employee retirement plans with respect to the applicable normal retirement age. Members of MSRS-General, PERA-General, TRA, DTRFA, and SPTRFA who first became pension plan members before July 1, 1989, are covered by the "Rule of 90" normal retirement age, where long service plan members may retire with full benefits at any age when the sum of attained age and accrued service credit totals 90. Post-June 30, 1989, entrants of these plans have no early normal retirement age access before age 66.

Although the actuarial valuation active member census information is sufficiently imprecise to determine the exact percentage of the portion of the membership who became plan members after June 30, 1989, approximately three-quarters of the applicable plan memberships are excluded from the "Rule of 90" benefit tier coverage.

D. Future of Minnesota Local Retirement Plans.

1. Brief Background Information. Although Minnesota utilizes statewide retirement plans to cover a large portion of the State's public workforce, Minnesota has a large number of local retirement plans, largely as a function of the numerous volunteer firefighter relief associations.

Over the 1960s, 1970s, and 1980s, the Legislature reduced the number of local pension plans providing primary retirement coverage to public employees, chiefly by phasing-out all of the local police and paid firefighter relief associations and by enabling the consolidation of most of the local police and paid firefighter relief associations into PERA-P&F. Also placed on a phase-out basis during this period was MERF and also consolidated into a statewide pension plan during this period was the St. Paul Bureau of Health Relief Association.

2. Administrative Issues. Those local retirement plans that were placed on a phase-out status three or four decades ago, the Minneapolis Firefighters Relief Association, the Minneapolis Police Relief

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Association, the Fairmont Police Relief Association, and the Virginia Fire Department Relief Association, now have very small or nonexistent active memberships and may no longer have the magnitude of administrative duties to justify a separate retirement plan administration. The Duluth Teachers Retirement Fund Association (DTRFA) and the St. Paul Teachers Retirement Fund Association (SPTRFA) both serve school districts with recent enrollment declines and falling active membership numbers that may indicate the appropriateness of at least an administrative consolidation with a larger retirement plan administration.

3. Funding/Coverage Issues. With the full consolidation of the Minneapolis Teachers Retirement Fund Association (MTRFA) into TRA in 2006 and an administrative consolidation of MERF into PERA in 2010, a policy question arises about the future with respect to DTRFA and SPTRFA. Both DTRFA and SPTRFA have declining funding ratios and growing contribution deficiencies, although neither plan has reached the significant level of financial and administrative problems that typified MTRFA immediately before the 2006 consolidation and MERF before the 2010 consolidation. The Minneapolis Police Relief Association and the Minneapolis Firefighters Relief Association have significant liabilities and have recently been found by a Hennepin County District Court to have misinterpreted their plan document and overpaid pensions, although that decision is being appealed. The Virginia Fire Department Relief Association and the Fairmont Police Relief Association only have retired members and are very small plans administered by an aging set of officers. Some change may be appropriate, either using the MERF model (phase-out into a statewide retirement plan (PERA)), or using the MTRFA model (consolidation into a statewide retirement plan (TRA)) to resolve the situation of these plans.

E. Actuarial Value of Pension Fund Assets.

1. Brief Background Information. For actuarial valuation and annual financial reporting purposes, Minnesota public pension plan assets are valued in a manner that is not solely the market value of the applicable securities.

Initially, in the 1950s and 1960s actuarial and financial reporting laws, pension plan assets were valued at their book (initial security purchase) value. In 1984 (Laws 1984, Chapter 564), the value of Minnesota pension plan assets for actuarial and financial reporting purposes was changed to an actuarial value of assets, defined as book value plus or minus one-third of the difference between book value and market value.

In 2000 (Laws 2000, Chapter 461, Article 1, Section 3), the actuarial value of pension plan assets definition was revised upon the recommendation of the consulting actuary retained by the Legislative Commission on Pensions and Retirement, based on the current market value, but adjusted upward or downward based on portions of the difference between the actuarially expected increase in the asset value and the actual market value change over a five-year period. The intent of the actuarial value definition is to eliminate short-term market value fluctuations out of the ongoing asset value figures.

2. Comparison of Market Value and Actuarial Value of Pension Plan Assets. Using an actuarial value of assets rather than the market value of assets for a pension plan apparently is not uncommon among public pension plans and complies with generally accepted accounting principles under Government Accounting Standards Board pronouncements. Using a smoothing method that shaves off short-term market volatility is particularly advantageous from a policy perspective if the pension plan funding procedures immediately translate actuarial results into modified employer contribution amounts in the following year, where short-term value changes would produce highly variable contribution levels year to year. In Minnesota, this is a consideration only for MERF and for the five local police and paid firefighter relief associations. The use of a smoothing mechanism may be sensible policy where the smoothing period reflects the actual pattern of market volatility, which tends to be either less than one year or longer than

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five years based on long-term stock market return data from Ibbotson Associates. Even if the smoothing period matches market cycles, an actuarial value of pension assets definition does nothing more than delay the recognition of actual market changes, both up and down.

F. Unfunded Actuarial Accrued Liability Level Percentage of Pay Amortization.

1. Brief Background Information. When pension plan actuarial accrued liabilities exceed pension plan assets, the plan has an unfunded actuarial accrued liability, which represents the cumulative total of past departures from sound full funding practices, such as past actuarial experience losses, past insufficient contributions, past benefit increases, or a combination of the three. If a retirement plan has an unfunded actuarial accrued liability, sound pension funding practices require that the unfunded actuarial accrued liability be paid or amortized over a reasonable period of time, optimally related to the remaining working lifetime of the plan's active membership.

The amortization of pension plan unfunded actuarial accrued liabilities depend on the amortization period, measured by the amortization target date, and on whether the amortization contribution is calculated as a level dollar amount or as a level percentage of covered pay.

In Minnesota, amortization contribution requirements are calculated as part of the actuarial valuation process under Minnesota Statutes, Section 356.215, Subdivision 11, but only MERF and local police and fire relief association future contribution amounts are required to change in the following year as a consequence of that actuarial work. For all other Minnesota defined benefit retirement plans, the amortization contribution requirement is advisory, used by the Legislative Commission on Pensions and Retirement and the Legislature to set member and employer contribution rates.

Since 1984, Minnesota has used a level percentage of covered payroll amortization rather than the prior level dollar amortization requirement and has reset the amortization target date on several occasions, usually with a period no longer than 30 years.

2. Impact of Level Percentage of Covered Pay Amortization. The level percentage of covered pay amortization procedure provides potential contribution rate stability over time when compared to the level dollar amortization period over time, but has the effect of deferring much of the actual payments to reduce the principal amount of the unfunded actuarial accrued liability to the second half of the amortization period, with early period payments less than full interest on the unfunded actuarial accrued liability and with the unfunded actuarial accrued liability actually increasing in amount during the early portion of the amortization period.

The following compares the amortization factor used by each retirement plan for the July 1, 2010, actuarial valuations with the pre-retirement interest rate of 8.5 percent, which in every case is less than full interest for the 2011 plan year:

	Amortization Factor	8.5 Interest
MSRS-General	0.05691581	0.085
PERA-General	0.0684838	0.085
TRA	0.05927884	0.085
MSRS-Correctional	0.0592057	0.085
State Patrol	0.06178271	0.085
PERA-P&F	0.05917586	0.085
PERA-Correctional	0.100146	0.085
Judges	0.06240936	0.085
DTRFA	0.06326094	0.085
SPTRFA	0.060242116	0.085

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G. Appropriateness of Current Actuarial Assumptions, Especially Economic Assumptions.

1. Brief Background Information. Actuarial valuations are budgeting tools for recognizing pension costs and involve projecting future benefit expenditures and forecasting future economic and non-economic, or demographic, events. In determining the annual cost of a defined benefit pension plan and its financial health actuarially, there are two important factors, the actuarial cost method and the actuarial assumptions. Minnesota has considered the question of the appropriate actuarial cost method since the mid-1960s and requires in Minnesota Statutes, Sections 69.77, 69.773, and 356.215, the use of the Entry Age Normal Actuarial Cost Method.

Actuarial assumptions are predictions about future experience in various areas, some economic and some demographic. The principal economic actuarial assumptions are investment performance, cost-of-living salary increases, merit or longevity and salary increases, and payroll growth. The principal demographic actuarial assumptions are mortality, retirement age, withdrawal, separation, or turnover, and disablement.

In Minnesota public pension plans, the economic actuarial assumptions are set forth in statute (Minnesota Statutes, Section 356.215) and the demographic actuarial assumptions are specified or modified with Legislative Commission on Pensions and Retirement approval, upon the request of the public pension plan administration, the plan actuary, or the Commission's actuary.

In order to gauge the adequacy of actuarial assumptions, quadrennial experience studies are performed automatically for the three major retirement plans and are performed for the remaining statewide and major local retirement plans based upon ad hoc Commission action. Additionally, each actuarial valuation of a statewide or major local retirement plan is required to contain an actuarial gain and loss analysis, focusing on the major economic and demographic experience items, to assist in determining the continued accuracy of the various actuarial assumptions.

Changing actuarial assumptions, when the quadrennial experience study indicates a need to do so, is not always an easy proposition. In the 1993-1995 round of experience studies, several assumptions that were identified for modification by the Commission actuary ultimately were not modified because of opposition from pension plan actuaries and administrators and several assumption changes were subject to dispute because of apparent stylistic disagreements among actuaries and because of the actuarial cost impact of the change on the potential for additional future benefit increases.

Frequently in the past, actuarial assumptions have been changed in combination with benefit improvements (principally 1973 and 1989 for the statewide plans) or in combination with contribution restructurings (1984 for the statewide and major local plans; 1991 for the Minneapolis Employees Retirement Fund (MERF)).

2. Appropriateness and Reasonableness of Minnesota's 8.5% Investment Return Actuarial Assumption. Minnesota has one of the more aggressive investment return actuarial assumptions among the 50 states, set at 8.5 percent since 1989. The consulting actuarial firm retained by MSRS, PERA and TRA, Mercer, has recommended in the 2004-2008 Experience Study, filed with the Commission in 2010, to reduce the investment return actuarial assumption from 8.5 percent to 8.0 percent. The State Board of Investment reportedly is not supportive of the change. The MSRS, PERA and TRA retirement system boards did not pursue the recommended change during the 2010 Session and the Commission did not recommend the change in 2010. A change to a lower investment return assumption, which reduces the amount of the discount for future retirement plan benefit payments, will increase the required actuarial funding of the various Minnesota retirement plans.

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Nationally, commentators have criticized public pension plan investment return actuarial assumptions, with some recommending the use of rates set at or near the interest rate payable on federal Treasury notes or Treasury bonds. That practice would require a significant reduction in the current investment return actuarial assumption rate and would produce significant increases in the actuarial requirements of the state's public pension plans.

H. Extent of Active vs. Passive Investment Strategies.

1. Brief Background Information. Pension plans accumulate large amounts of assets to offset the liabilities undertaken by the plans and to avail themselves of investment income for a considerable portion of ultimate benefit payments rather than plan contributions. Pension plans are institutional investors and can follow an active investment strategy, a passive investment strategy, or can utilize each strategy for a portion of the total portfolio.

Active management is simply an attempt to "beat" the market as measured by a particular benchmark of index by utilizing one or more strategies for identifying investment securities or opportunities that provide above-average prospects for investment return. Passive management, or indexing, is an investment management approach based on investing in exactly the same securities, in the same proportions, as an index because of a belief that it is difficult to beat the market and a belief that when the market is beaten, it is a function of luck rather than skill.

Of the various larger Minnesota public pension plans, active management appears to be utilized to some degree. Active management strategies have the advantages of utilizing investment experts, of having the potential of significant returns, of allowing investment managers to take defensive actions when market downturns are evident. The disadvantages of active investment strategies are higher investment fees and expenses, higher potential for mistakes to be made, and greater potential for manager style to diminish performance. Passive investment strategies have the advantages of reduced investment fees and expenses and of a reduced time commitment to investment decision making. The disadvantages of passive investment strategies are the extent that investment performance is dictated by the index and the unavailability of potential defensive actions when market shifts are detected.

2. Portfolio Mix. Whether active or passive investment strategies are employed, the investment portfolio mix will have a significant impact on investment performance. The investment portfolio mix is the extent of utilization of domestic equity securities, international equity securities, debt securities, cash and cash equivalents, and alternative investments.
3. Investment Management Style. Within the portfolio mix, pension plan assets are invested using a particular management style, active, passive, or enhanced passive or semi-passive.

An active management style invests in specific individual stocks or bonds in different proportions with the intention of earning a higher rate of return than the applicable index, attempting to earn more than the index, but running the risk that the investor can also earn less. Management fees are highest with this style.

A passive management style invests in specific individual stocks or bonds in the same proportion as those individual stocks or bonds are reflected in some benchmark index, with the result that the investor generally will earn the index rate less management fees. This style has the lowest management fees.

An enhanced passive or semi-passive management style generally invests close to an index, but with selected deviations in an attempt to earn a higher rate of return. Management fees

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under this style will be higher than the passive management style, but generally should be less than the active management style.

Over the past 20 years, the State Board of Investment has made the greatest use of the active management style in investing Minnesota public pension plan assets, followed by the semi-passive style, and the passive style.

While the active management style can produce higher investment returns than the semi-passive or passive management styles, after the deduction of investment expenses, historically, most active money managers apparently do not exceed the applicable indices consistently. If active investment management produces erratic and inconsistent results, the investment authority may have a special burden to justify a significant utilization of that style.

4. Number of Managers. The utilization of an active investment management style can also involve a significant number of money managers.

The State Board of Investment, over the past 20 years, has made extensive use of external managers, with a minority portion of its invested assets managed internally, and reportedly views itself as a manager of investment managers.

I. State Aid Programs Dedicated to Pension Funding.

1. Brief Background Information. Because state and local government in Minnesota is an employment-intensive endeavor and because pension coverage is a consistent feature of Minnesota governmental employment, government at all levels in Minnesota has the burden of funding a significant portion of that pension coverage.

This cost burden of Minnesota public pension plan coverage has led to the creation of state aid programs directly related to pension plan funding and pension costs are a factor in generalized state aid programs.

The direct state aid programs related to public pensions, by year of creation, are as follows:

- Fire State Aid, 1885 (Laws 1885, Ch. 187).
- Teachers Retirement Association (TRA) Employer State Contribution, 1915 (Laws 1915, Ch. 199).
- First Class City Fire Insurance Surcharge, 1934 (Extra Session Laws 1934, Ch. 53).
- Police state aid, 1971 (Laws 1971, Ch. 695)
- Minneapolis Employees Retirement Fund (MERF) State Contribution, 1979 (Laws 1979, Ch. 303, Art. 6, Sec. 9).
- Local Police and Paid Fire Amortization Aid, 1980 (Laws 1980, Ch. 607, Art. XV, Sec. 5).
- Local Police and Paid Fire Supplemental Amortization Aid, 1984 (Laws 1984, Ch. 564, Sec. 48).
- Volunteer Fire Supplemental Benefit Reimbursement, 1988 (Laws 1988, Ch. 719, Art. 19, Sec. 22).
- Pre-1974 MERF Retiree Supplemental State Contribution, 1991 (Laws 1991, Ch. 345, Art. 4, Sec. 5).
- Ambulance Service Personnel Longevity Award and Incentive State Aid, 1993 (First Special Session Laws 1993, Ch. 1, Art. 1, Sec. 1).
- Minneapolis Teachers Retirement Fund Association (MTRFA)/St. Paul Teachers Retirement Fund Association (SPTRFA) Matching State Aid, 1993 (Laws 1993, Ch. 357, Sec. 3-4).
- Additional Local Police and Paid Fire State Aid, 1995 (Laws 1995, Ch. 262, Art. 4, Sec. 1).
- Minimum Volunteer Fire State Aid, 1996 (Laws 1996, Ch. 438, Art. 4, Sec. 2).
- MTRFA/SPTRFA Redirected State Aid, 1996 (Laws 1996, Ch. 438, Art. 4, Sec. 9).
- MTRFA/SPTRFA Additional Direct State Aid, 1997 (Laws 1997, Ch. 233, Art. 3, Sec. 4).
- Public Employees Retirement Association (PERA) Covered Employer State Aid, 1997 (Laws 1997, Ch. 233, Art. 1, Sec. 14-15).

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The indirect state aid programs, where the aid proceeds can be used to pay employer retirement plan contributions, but where no specific portion of the aid is allocated to pension contributions, are state education aid; into which the TRA employer state contribution was folded, local government state aid, and state transportation aids.

2. Amount of Direct State Pension Aids FY 2006-2010. From information provided to the Commission staff by the House Fiscal Department on January 4, 2007, the following are the amounts of the direct state pension aids for Fiscal Year 2006 and for the following five fiscal years, Fiscal Year 2007 through Fiscal Year 2011:

	Actual FY 2006	Nov. 06 Forecast FY 2007	Nov. 06 Forecast FY 2008	Nov. 06 Forecast FY 2009	Nov. 06 Forecast FY 2010	Nov. 06 Forecast FY 2011
	<i>(all numbers in thousands)</i>					
Fire State Aid	\$30,436	\$32,358	\$30,122	\$27,973	\$25,945	\$28,215
1 st Class City Fire Insurance Surcharge	1,606	1,606	1,606	1,606	1,606	1,606
Police State Aid ¹	47,641	48,267	53,590	59,434	65,411	67,737
MERF ²	8,065	9,000	9,000	9,000	9,000	9,000
Local Police & Paid Fire Amortization Aid	2,616	1,978	1,978	1,978	1,978	1,978
Local Police & Paid Fire Supplemental Amortization Aid	750	750	750	750	750	750
Supplemental Volunteer Firefighter Reimbursement	486	486	486	486	486	486
MTRFA 1993 Aid	2,472	2,486	2,500	2,500	2,500	2,500
Redistribution of Amortization Aid ³	1,436	1,436	1,436	1,436	1,436	1,436
Additional Local Police & Paid Fire Amortization Aid	8,284	4,843	4,843	4,843	4,843	--
MTRFA 1997 Aid	13,298	13,300	13,300	13,300	13,300	13,300
SPTRFA 1997 Aid	2,969	2,967	2,967	2,967	2,967	2,967
PERA Pension Aid	14,568	14,560	14,560	14,560	14,560	14,560
Totals	\$134,627	\$134,037	\$137,138	\$140,833	\$144,782	\$144,535

All of the various state aid programs are funded ultimately from the state General Fund. The MERF state aid, the 1993 and 1997 MTRFA state aid, and the 1997 and SPTRFA state aid, approximately 20 percent of the total amount of the state pension aids, is within the jurisdiction of the House State Government Finance Division. The balance, approximately 80 percent of the total amount of state pension aids, is within the jurisdiction of the House Taxes Committee.

A number of policy questions can be raised with respect to the state involvement in pension plan funding, including the use of the state general fund as the appropriate source of all state pension aids, the appropriateness of dedicated funding rather than biennial appropriations for some aid programs, the adequacy of the qualification requirements for some aid programs, the adequacy of current aid applications or reporting, the disposition of funds upon aid disqualification, the manner in which the aid is allocated, the permissible uses for state aid, the extent of disclosure about state aid distributions, and the appropriate termination of state aid programs.

J. Appropriate Manner for the State to Obtain Actuarial Information.

1. Brief Background Information. Actuarial information was first required from the state's various public employee retirement plans in 1957 (Special Session Laws 1957, Chapter 11), with regular actuarial reporting by the state's largest retirement plans mandated in 1965 (Laws

¹ "Excess" police state aid is the funding source for local police and paid fire additional amortization state aid and for the ambulance service personnel longevity award and incentive state aid.

² MERF state aid is now payable to the MERF Division of PERA.

³ Local police and paid firefighter amortization state aid and local police and paid firefighter supplemental amortization state aid are the funding sources for the minimum volunteer fire state aid and for the 1996 MTRFA and SPTRFA state aid.

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1965, Chapters 359 and 751), extended to the Minneapolis Employees Retirement Fund (MERF) and the first class city teacher retirement fund associations in 1969 (Laws 1969, Chapter 289), and extended to monthly benefit volunteer firefighter relief associations in 1971 (Laws 1971, Chapter 261).

Until 1985, each Minnesota public pension plan utilized its own consulting actuary or actuarial firm to prepare the actuarial report of the plan, with the Legislative Commission on Pensions and Retirement retaining a consulting actuary to review the actuarial reporting by the plan-retained consulting actuaries.

In 1985, as a result of Laws 1984, Chapter 564, Section 43, the responsibility for the preparation of the actuarial reporting for statewide and major local retirement plans was shifted to a single consulting actuary retained by the Legislative Commission on Pensions and Retirement. The various retirement plans responded to this change by continuing to retain actuarial consultants to review the work product of the Commission-retained consulting actuary.

In 2004 (Laws 2004, Chapter 223, Section 7), largely as a result of Legislative Commission on Pensions and Retirement budgetary constraints, the responsibility for retaining the consulting actuary to prepare the regular actuarial reporting was transferred from the Legislative Commission on Pensions and Retirement to the various statewide and major local retirement plan administrators acting jointly.

In 2008 (Laws 2008, Chapter 349, Article 10, Sections 7 and 9), the requirement that the various statewide retirement and major local retirement plans utilize a single, jointly selected consulting actuary was eliminated, each pension system was allowed to retain its own consulting actuary, and the Commission was permitted to retain its own consulting actuary to review and audit the work of the pension systems' consulting actuaries.

2. Appropriate Manner for Obtaining Actuarial Information. The goals in acquiring actuarial information undoubtedly include accuracy, consistency with professional and legal standards, timeliness, responsiveness, and compatibility. Each of the three actuarial services arrangements has had departures from some or all of these goals. Before 1985, the Commission was very concerned about accuracy and about consistency with legal standards and requirements among the actuaries retained by the various retirement plans. After 1984, with the centralization of actuary services into one consulting actuary, with retirement plans initially were concerned about accuracy, timeliness, responsiveness, and compatibility. Although some of those concerns diminished over time, the concerns never were fully ameliorated. After 2004, the budgetary constraints of the Commission were addressed in the provision of actuarial services, but the retirement plan administrators were not accustomed to acting jointly in retaining a consulting actuary, and timeliness, accuracy, and compliance issues have arisen with the consulting actuary retained under this procedure. The 2008 change to revert to the pre-1985 practice of utilizing separate consulting actuarial firms by the various pension systems has potentially increased responsiveness in the actuarial services, but has not advanced consistency, compatibility, or timeliness. The retention of a reviewing and auditing consulting actuary by the Pension Commission after 2008 is an attempt to address consistency and compatibility, but the practice is so new that actual results remain to be assessed and the double retention of consulting actuaries is expensive.

If there is sufficient interest by the Commission and other relevant legislative committees, the appropriate manner for structuring the retention of actuarial services for the state may be considered and addressed.