

Memo

To: Honorable Mayor and City Council
From: Joseph Kohlmann, City Administrator
Date: November 26, 2013
Re: EFD Pension Fund

Background:

The Volunteer firefighters for the Excelsior Fire District receive two types of payment, hourly (approximately \$10 hr.) and a pension. After 20 years of service, they are fully vested in the pension and currently receive \$6,250 per year of service. There is a pension fund set up grows to fund the pensions by earning interest in investments every year. So there is no ongoing contribution from the cities.

However, the Cities back the pension fund for any level it drops below 100%. The last few years (3 or 4), the Cities have had to make a mandatory contribution to bring the funding level back up to 100%. Whenever the pension fund reaches a level of 110% funded, the fire fighters can ask the Board for an increase in their pension. It is currently above 110%.

The Board has been trying to figure out a long term solution to this. *Attached is a Memorandum of Understanding drafted by Bruce Duncan that aims to set parameters for future increases.* While this M.O.U. was not adopted by the Board, it does represent the basic framework that 3 of 5 Member Cities conceptually support.

Also, the Board wants to consider increasing the benefit amount from \$6,250 to \$6,500. This **will be** put to a vote in January. The increase is retroactive for all years of service.

Attached is an email from Board Chair Greg Miller outlining a plan for benefit increases and benefit principles. Also, a spreadsheet containing projection numbers.

Attached is the M.O.U. drafted by Bruce Duncan with another spreadsheet.

Council Discussion Questions:

- 1) Does the Council see these funding parameters as a feasible approach?
- 2) Does the Council support an increase in the pension benefit in 2014 to \$6,500 from \$6,250.
- 3) Does the Council have any other suggestions or recommendations to make to the Board regarding process?

Council Action Requested:

Discuss the pension fund, study materials, and be prepared to have a more lengthy discussion in early January about the pension fund. Contact Staff for more information if needed.

Joe Kohlmann

From: Scott Gerber <sgerber@excelsiorfire.org>
Sent: Thursday, October 24, 2013 8:50 AM
To: Brian Kuhnly; Darren Aschoff; David Hoo; Peggy Cox; Relief; Vicki Narveson; Duncan, Bruce (COMM); Christine Freeman; Debbie Siakel; Dick Woodruff; dsiakel@ci.shorewood.mn.us; elliansari@gmail.com; gmiller17@email.msn.com; jbeattie@messerlikramer.com; jgrothe@twparchitects.com; josh@joshhackney.com; quamco@aol.com; sverickson@yahoo.com; Tom Fletcher; bjoynes@ci.shorewood.mn.us; Cheri Johnson; Dana Young (Dana Young); DanaYoung@mchsi.com; Joe Kohlmann; Kristi Luger; Larry Brown
Cc: sgerber@excelsiorfire.org
Subject: FW: EFD Work Session
Attachments: PortfolioValues2.56.xls

Please see the information below as requested.

Thanks and have a great day!

Scott

Scott Gerber, Fire Chief

Excelsior Fire District
24100 Smithtown Road
Shorewood, MN. 55331
Phone: 952-960-1650
Fax: 952-960-1690
E-mail: sgerber@excelsiorfire.org

"The unauthorized disclosure or interception of e-mail is a federal crime. See 18 U.S.C SEC. 2517(4). This e-mail is intended only for the use of those whom it is addressed and may contain information which is privileged, confidential and exempt from disclosure under the law. If you have received this e-mail in error, do not distribute or copy it. Return it immediately to the sender with attachments, if any, and notify the sender by telephone."

From: GREGORY MILLER [<mailto:gmiller17@msn.com>]
Sent: Wednesday, October 23, 2013 11:38 PM
To: Scott Gerber
Cc: Cheri Johnson
Subject: EFD Work Session

Hello Chief Gerber,

Please forward this email to all attendees at the work session tonight as requested by several at the meeting. Attached is the spreadsheet which models the proposed new relief association benefit policy:

Coverage Ratio	Benefit Increase
115%	3%
120%	4%
125%	5%

I would suggest that we also consider a 2% increase at the 110% coverage ratio. As discussed, the first four years of this spreadsheet from 2014 through 2017 reflect a 4% increase which may be more than the policy

suggests to recover for no increases since 2007. After 2017 through 2030 the spreadsheet models benefit increases based upon the policy above.

My understanding is that the policy would be applied annually after the coverage ratio is calculated using the actual liabilities and portfolio values that exist just prior to the last meeting where the benefit value would be determined for the following year (presumably sometime late October or early November). The actual timing and details of the benefit increase approval process should be determined for our policy discussion at our November 20th meeting.

Also, as requested, are the Relief Association benefit principles that were written on the white board:

- 1 - Competitive - Attract and retain high quality personnel
 - Rank high when compared to other fire fighter associations
 - Small consistent benefit increases are a plus for retention and do not encourage retirement "events"
- 2 - Keep our benefit at least in pace with inflation over time
 - The 2007 benefit level of 6250 (the current benefit level) would now have to be 7111 to just keep up with inflation since 2007 based upon the CPI
- 3 - Provide adequate controls over benefit increases
 - Annual evaluation and modeling
 - Consult with professional pension managers
- 4 - Minimize the need for city contributions
- 5 - Provide a financial model for long term planning (attached)

If there are any questions, I can be reached by email or by the phone numbers below.

Thanks,
gm

Greg Miller
Azure Blu Consulting, LLC
335 College Avenue
Excelsior, MN 55331
952-474-2541
952-221-6977 c

Models Value of Relief Association Portfolio over Time with Payout Liability and Coverage Ratio

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Start Values									
Portfolio Value	\$ 4,500,000	\$ 4,847,500	\$ 5,214,460	\$ 5,601,970	\$ 6,011,180	\$ 6,443,306	\$ 6,895,631	\$ 7,381,511	\$ 7,890,375
Portfolio % Return	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%
City Contribution	\$ -	\$ 252,000	\$ 271,460	\$ 292,010	\$ 313,710	\$ 336,626	\$ 360,825	\$ 386,379	\$ 415,365
Two Percent Money Admin Cost	\$ 105,000	\$ 105,000	\$ 105,000	\$ 105,000	\$ 105,000	\$ 105,000	\$ 105,000	\$ 105,000	\$ 105,000
Total Payout Liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Active FF Liability	\$ 2,915,875	\$ 3,214,875	\$ 3,524,835	\$ 3,843,233	\$ 4,185,568	\$ 4,531,992	\$ 4,888,809	\$ 5,256,331	\$ 5,634,878
New Benefit \$	\$ 299,000	\$ 319,960	\$ 340,334	\$ 361,298	\$ 382,262	\$ 403,226	\$ 424,190	\$ 445,154	\$ 466,118
Active Fire Fighters	\$ 46	\$ 46	\$ 46	\$ 46	\$ 46	\$ 46	\$ 46	\$ 46	\$ 46
Benefit Amount	\$ 6,250	\$ 6,500	\$ 6,750	\$ 7,000	\$ 7,250	\$ 7,500	\$ 7,750	\$ 8,000	\$ 8,250
Benefit Increase %	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Benefit Increase \$	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Savings Plan \$	\$ 819,644	\$ 860,626	\$ 903,658	\$ 948,840	\$ 996,282	\$ 1,046,097	\$ 1,098,401	\$ 1,153,321	\$ 1,210,987
Plan % Return	5%	5%	5%	5%	5%	5%	5%	5%	5%
Plan \$ Return	\$ 40,982	\$ 43,031	\$ 45,080	\$ 47,129	\$ 49,178	\$ 51,227	\$ 53,276	\$ 55,325	\$ 57,374
Coverage Ratio	116%	116%	116%	117%	116%	116%	115%	115%	115%

Year	2022	2023	2024	2025	2026	2027	2028	2029	2030
Portfolio Value	\$ 8,427,736	\$ 8,995,189	\$ 9,594,420	\$ 10,227,208	\$ 10,895,431	\$ 11,601,075	\$ 12,346,236	\$ 13,133,125	\$ 13,964,080
Portfolio % Return	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%
City Contribution	\$ 441,861	\$ 471,953	\$ 503,731	\$ 537,288	\$ 572,724	\$ 610,144	\$ 649,660	\$ 691,389	\$ 735,465
Two Percent Money Admin Cost	\$ 105,000	\$ 105,000	\$ 105,000	\$ 105,000	\$ 105,000	\$ 105,000	\$ 105,000	\$ 105,000	\$ 105,000
Total Payout Liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Active FF Liability	\$ 7,286,519	\$ 7,761,486	\$ 8,241,901	\$ 8,738,062	\$ 9,250,491	\$ 9,779,774	\$ 10,331,001	\$ 10,905,089	\$ 11,502,993
New Benefit \$	\$ 6,024,782	\$ 6,426,383	\$ 6,840,031	\$ 7,265,090	\$ 7,704,930	\$ 8,156,935	\$ 8,627,020	\$ 9,115,909	\$ 9,624,354
Active Fire Fighters	\$ 389,904	\$ 401,601	\$ 413,648	\$ 426,068	\$ 438,940	\$ 452,005	\$ 470,085	\$ 488,889	\$ 509,444
Benefit Amount	\$ 8,476	\$ 8,730	\$ 8,992	\$ 9,262	\$ 9,540	\$ 9,826	\$ 10,219	\$ 10,628	\$ 11,053
Benefit Increase %	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Benefit Increase \$	\$ 246,888	\$ 254,293	\$ 261,911	\$ 269,777	\$ 277,866	\$ 286,200	\$ 295,000	\$ 303,277	\$ 312,044
Savings Plan \$	\$ 1,271,537	\$ 1,335,114	\$ 1,401,869	\$ 1,471,963	\$ 1,545,561	\$ 1,622,839	\$ 1,703,981	\$ 1,789,180	\$ 1,878,639
Plan % Return	5%	5%	5%	5%	5%	5%	5%	5%	5%
Plan \$ Return	\$ 60,549	\$ 63,577	\$ 66,756	\$ 70,093	\$ 73,598	\$ 77,278	\$ 81,142	\$ 85,193	\$ 89,459
Coverage Ratio	116%	116%	116%	117%	118%	119%	120%	120%	121%

Memorandum of Understanding

STATEMENT OF PURPOSE

Both the Excelsior Fire District Board and the Excelsior Firefighters Relief Association Board are desirous of adopting a long-term solution to systemic Fire District pension issues.

Both Boards wish to maintain a steady funding ratio over time while ensuring that all retiring members of the relief association receive an equitable pension benefit.

Both Boards recognize that low funding ratios often trigger greater required municipal contributions. These contributions often occur as a result of downturns in the economy. These downturns place difficulties on District and municipal budgets beyond those of firefighter pensions. Frequent or large required District contributions may cause the District to become less willing to approve future pension benefit increase requests.

Likewise, both Boards acknowledge that Relief associations with excessively high funding ratios may be shortchanging current retiring members. In the case of over-funded relief associations, future benefit increases may be viewed as unfair to retired members who provided service for years when the plan was over-funded.

Both Boards believe that the approach of implementing smaller, but more frequent, benefit changes may provide more stability to the District and make benefit amounts to firefighters more consistent over time.

AGREEMENT

The following agreement is adopted by both the Excelsior Fire District Board and the Excelsior Firefighters Relief Association Board:

1. Prior to the last District Board meeting of each calendar year, the Relief Board will prepare and present and Pension Financial Statement. Based upon that Pension Financial Statement, the Excelsior Fire District Board and the Excelsior Firefighters Relief Association Board will agree to the following pension modifications:
 - a. If the Funding Percentage is less than 110%, there shall be no increase in the per year of service benefit;
 - b. If the Funding Percentage is greater than or equal to 110%, but less than 115%, there shall be a 2% increase in the per year of service benefit;
 - c. If the Funding Percentage is greater than or equal to 115%, but less than 120%, there shall be a 4% increase in the per year of service benefit;

- d. If the Funding Percentage is greater than or equal to 120%, but less than 125%, there shall be a 5% increase in the per year of service benefit;
 - e. If the Funding Percentage is greater than or equal to 125%, the Boards shall meet to reevaluate the pension issue.
2. The Pension Financial Statement shall consist of the following:
- a. The Assets divided by the Liabilities to give a Funding Percentage as of the end of the month preceding the last District Board meeting of the year.
 - b. The Assets shall consist of the Special Fund balance as of the end of the month preceding the last District Board meeting of the year.
 - c. The Liabilities shall consist of the liabilities set forth on the State Auditor's SC form as prepared by the Relief Board and certified by the District Board, with any additions or modifications made from the time of certification through the end of the month preceding the last District Board meeting of the year.
 - d. Any necessary documentation used to support the calculation shall be included with the Pension Financial Statement.
3. The Plan shall continue through January 1, 2021, at which time the Boards will review and modify the plan as necessary.
4. Both Boards agree that this document is not legally binding, but simply a long term plan to address pension issues.

Models Value of Relief Association Portfolio over Time with Payout Liability and Coverage Ratio

Year	2013	2014	2015	2016	2017	2018	2019	2020
Start Values								
Portfolio Value	\$ 4,500,000	\$ 4,847,500	\$ 5,214,460	\$ 5,601,970	\$ 6,011,180	\$ 6,443,306	\$ 6,899,631	\$ 7,381,511
Portfolio % Return	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%
City Contribution	\$ -	\$ -	\$ 271,460	\$ 292,010	\$ 313,710	\$ 336,626	\$ 360,825	\$ 386,379
Two Percent Money	\$ 105,000	\$ 105,000	\$ 105,000	\$ 105,000	\$ 105,000	\$ 105,000	\$ 105,000	\$ 105,000
Admin Cost	\$ 9,500	\$ 9,500	\$ 9,500	\$ 9,500	\$ 9,500	\$ 9,500	\$ 9,500	\$ 9,500
Total Payout Liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Active FF Liability	\$ 2,915,875	\$ 4,075,501	\$ 4,429,493	\$ 4,798,074	\$ 5,181,850	\$ 5,581,452	\$ 5,997,536	\$ 6,430,786
New Benefit \$	\$ -	\$ 3,214,875	\$ 3,625,835	\$ 3,849,233	\$ 4,185,568	\$ 4,535,355	\$ 4,899,135	\$ 5,277,465
Active Fire Fighters	46	46	46	46	46	46	46	46
Benefit Amount	\$ 6,250	\$ 6,500	\$ 6,760	\$ 7,030	\$ 7,312	\$ 7,604	\$ 7,908	\$ 8,225
Benefit Increase %	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Benefit Increase \$	\$ -	\$ 250.00	\$ 260.00	\$ 270.40	\$ 281.22	\$ 292.46	\$ 304.16	\$ 316.33
Savings Plan \$	\$ 819,644	\$ 860,626	\$ 903,658	\$ 948,840	\$ 996,282	\$ 1,046,097	\$ 1,098,401	\$ 1,153,321
Plan % Return	5%	5%	5%	5%	5%	5%	5%	5%
Plan \$ Return	\$ -	\$ 40,982	\$ 43,031	\$ 45,183	\$ 47,442	\$ 49,814	\$ 52,305	\$ 54,920
Coverage Ratio	119%	119%	118%	117%	116%	115%	115%	115%