GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

MINNEAPOLIS EMPLOYEES RETIREMENT FUND

ACTUARIAL VALUATION REPORT

AS OF JULY 1, 2009

GRS
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September 29, 2009

Mr. Brian Lokkesmoe
Board President
Minneapolis Employees Retirement Fund
800 Baker Building
706 2nd Avenue South
Minneapolis, Minnesota 55402-3004

Re: Minneapolis Employees Retirement Fund Actuarial Valuation as of July 1, 2009

Dear Mr. Lokkesmoe:

The results of the June 30, 2009, Annual Actuarial Valuation of the Minneapolis Employees Retirement Fund are presented in this report. The purpose of the valuation was to measure the Fund's funding progress and to determine the employer contribution rate for the next fiscal year.

The valuation was based upon information, furnished by the Fund, concerning Retirement Fund benefits, financial transactions, and active members, terminated members, retirees and beneficiaries. We checked for internal and year-to-year consistency, but did not otherwise audit the data.

The valuation results presented in this report are consistent with our understanding of the statute, and its related requirements for the method of valuing the liabilities for the Fund. We are concerned that the methods as described under the statute do not fully reflect the liabilities of the Fund and do not provide the proper assignment of funding responsibilities of the related obligations. Calculations contained in this report are made in conformity with generally accepted actuarial principles and practices, except where the statute has overridden those practices.

The Fund is experiencing a serious funding deficiency. In the absence of significant improvements to funding, the Fund will be depleted before it meets its benefit obligations.

If there is other information that you need in order to make an informed decision regarding the matters discussed in this report, please contact us.

The undersigned actuaries are independent of the plan sponsor and meet the Qualification Standards of the American Academy of Actuaries to render the Actuarial Opinions contained herein.

Respectfully submitted,

Leslie L. Thompson

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Senior Consultant

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Consultant

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SECTION A

INTRODUCTION

Executive Summary

Summary of Key Valuation Results

	2009	2008
Contributions (% of payroll) for plan year beginning July 1:		
Statutory - Chapter 422A	163.16%	131.34%
Required - Chapter 356	833.55%	374.32%
Funding elements for plan year beginning July 1:		
Normal cost	$1,152,674	$1,546,554
Market value of assets	859,895,146	1,214,522,650
Actuarial value of assets	880,133,155	1,214,305,152
Actuarial accrued liability*	1,551,099,019	1,576,854,841
Liquidity Trigger Adjustment (Chapter 422A)**	23,912,506	12,135,486
Unfunded/(overfunded) actuarial accrued liability	694,878,370	374,685,175
GASB 25/27 For plan year ending June 30:		
Annual required contributions	$40,025,766	$24,713,686
Funded ratio	55.88%	76.42%
Covered actual payroll	$10,979,348	$13,956,617
Demographic data for plan year beginning July 1:		
Number of retired participants and beneficiaries	4,493	4,646
Number of vested former members	120	134
Number of active members	174	211
Total projected payroll	$10,841,852	$12,697,639
Average projected pay***	62,309	60,178

* *Increases under 1998 and 1999 legislation are not included in this liability, because these costs are excluded from state - provided funding.*

** *Liquidity Trigger Adjustment (Chapter 422A) is added to the Actuarial Accrued Liability effective June 30, 2008.*

*** *Pay projected by the assumed salary scale.*

Discussion

Actuarial Valuation

This is the actuarial valuation of the Minneapolis Employees Retirement Fund (MERF), prepared as of July 1, 2009. Valuations are prepared annually, as of July 1 of each year, the first day of MERF's fiscal year. The primary purposes of the valuation report are to measure the plan’s liabilities; to determine the adequacy of the statutory employer contribution rate based upon the system’s funding policy and to analyze changes in MERF's actuarial position. In addition, the report provides information in connection with Governmental Accounting Standards Board Statement No. 25 (GASB 25), and it provides summaries of the member data, financial data, plan provisions, and actuarial assumptions and methods.

Assets

Fund assets are held in trust. The Minneapolis Employees Retirement Fund has provided the asset information used in this valuation.

Section D contains several exhibits summarizing the plan’s assets, presents a summary of the Market Value of Assets held by the fund, shows the allocation of assets held for investment and shows a reconciliation of the assets from the last valuation date to the current valuation date.

Section D also shows the development of the Actuarial Value of Assets. The Actuarial Value of Assets is a smoothed Market Value. A smoothed value is used in order to dampen some of the year-to-year fluctuations in valuation results that would occur if the Market Value were used instead. The method used phases in differences between the actual and expected market returns over five years. The expected return is determined using the statutory 6.00% assumption and the plan’s Market Value, adjusted for contributions received and benefits and refunds paid. Both the actual and expected returns are computed net of administrative expenses.

The Market Value and Actuarial Value of Assets are calculated as of June 30, 2009, under both the current (“New”) Asset Method and prior (“Old”) Asset Method. The calculation detail of the Allocation of Supplemental Contribution for each Employer is in accordance with Minnesota Statute Chapter 422A.101, including the calculation of the assets under the Old Asset Method. This is defined such that the assets of the Retirement Benefit Fund (RBF) shall be valued equal to the actuarially determined required reserves for the benefits payable from that Fund. The Statutes are silent with regards to contributions allotted for the Supplemental Contribution under the New Asset Method calculation in excess of the Supplemental Contribution under the Old Asset Method calculation. Based on verbal discussions with MERF and consultants to MERF, we have calculated the Allocation of Supplemental Contribution for each Employer under the Old Asset Method. All other results are calculated under both the Old and New Asset methods.

Member Data

The MERF is closed to new participants and current active participants are quickly approaching retirement age. There are 174 active participants as of July 1, 2009. In addition the ratio of non-actives to actives is steadily increasing.

Financing Objectives

MERF is supported by employee contributions, employer contributions, and net earnings on the investments of the Fund. The employee contribution rate is set by law at 9.75% of the employee's compensation, while the employer contribution is determined by the actuarial valuation.

The combined employee and employer contributions are intended to be sufficient to pay the normal cost and to amortize the Unfunded Actuarial Accrued Liability (UAAL) over a period of "N" years from the valuation date through the amortization date of June 30, 2020 (11 years remaining as of July 1, 2009). A thirty-year period is the maximum amortization period allowed by GASB No. 25 in computing the Annual Required Contribution (ARC).

Contribution Requirement

The statutory contribution rate under Chapter 422A for the fiscal year ending June 30, 2010, is 163.16% of covered payroll, compared to 131.34% of covered payroll for the fiscal year ending June 30, 2009. The required contribution rate determined under Chapter 356 under the New Asset Method for the fiscal year ending June 30, 2010, is 833.55% of covered payroll, compared to 374.32% of covered payroll for the fiscal year ending June 30, 2009. Therefore there is a contribution deficiency of $72,682,521.

The plan experienced a loss of $302,243,032, of which $270,171,052 is a loss from investments and a loss of $32,071,980 from demographics.

Failure to contribute the required contribution can and will deplete the asset pool before obligations are satisfied.

Funding Deficiency

The Fund is experiencing a funding deficiency- contributions made to the plan are not sufficient to adequately fund the projected benefits. The prior asset valuation method under statute, which set the value of the assets equal to the liabilities for the Retiree Benefit Fund (RBF), ignored the actual market value of the assets in the RBF and therefore did not develop a contribution plan to fund for the unfunded actuarial accrued liability (UAAL). The method has been changed in the 2007 statutes, and the results show the UAAL of the plan under both methods. However, the allocation of the supplemental contribution by employer does not reflect the true market value of the assets in the RBF, as no assignment has been made in statutes regarding the party responsible for payment of the additional deficiency created by changing asset methods. Also, the implementation of the Liquidity Trigger Adjustment has added to the increase in the funding deficiency of the Fund in that it is creating an "IOU" for contribution amounts-an "IOU" from an unidentified source.

In the absence of enabling legislation and related funding improvements, we remain concerned that the Fund will become depleted within the next 10 years.

Funded Status

As of the valuation date, under the New Asset Method the Unfunded Actuarial Accrued Liability (UAAL) including the Liquidity Trigger Adjustment is $694.88 million, and the funded ratio (the ratio of the Actuarial Value of Assets to the Actuarial Accrued Liability) is 55.88%. At the time of last year's valuation, under the New Asset Method the UAAL including the Liquidity Trigger Adjustment was $374.69 million, and the funded ratio was 76.42%. See Section B for an analysis of the actuarial gains and losses over the last year and Section E for a history of the funded ratios.

Variability of Future Contribution Rates

The Actuarial Cost Method used to determine the contribution rate is intended to produce contribution rates which are generally level as a % of payroll. Even so, when experience differs from the assumptions, as it often does, the employer's contribution rate can vary significantly from year-to-year.

Smaller plans in particular often see significant year-to-year changes in the employer's contribution rate. The impact of a single new disability retirement or a single active-member death can move the contribution rate by more than one percent of pay in a very small plan. Normal variability in the number of retirements or terminations or salary increases or hiring can all cause noticeable shifts in the contribution rate from one year to the next.

Over time, if the year-to-year gains and losses offset each other, the contribution rate would be expected to return to the current level, but this does not always happen.

Benefit Provisions

This valuation reflects benefits promised to members by statute as reported to us by the Fund's administrator, Sections 356.215 and 422A of the Minnesota Statutes and the Standards for Actuarial Work as established by the State of Minnesota Legislative Commission on Pensions and Retirement.

Actuarial Assumptions and Methods

In determining costs and liabilities, actuaries use assumptions about the future, such as rates of salary increase, probabilities of retirement, termination, death and disability, and an investment return assumption. The Retirement Board sets the actuarial assumptions and methods taking into account recommendations made by the plan's actuary and other advisors.

Section G summarizes the current assumptions. The actuary has made no changes to the assumptions or methods used in this valuation.

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can, and almost certainly will, differ as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates, and amortization periods.

In addition to the actuarial assumptions, the actuary also makes use of an Actuarial Cost Method to allocate costs to particular years. In common with most public-sector plans, MERF uses the Entry

Age Normal method. Theoretically, this method produces a level pattern of funding over time, and thereby provides equity between various generations of taxpayers. We continue to believe this method is appropriate for the Minneapolis Employees Retirement Fund.

GASB No. 25 Disclosure

Governmental Accounting Standards Board (GASB) Statement No. 25 governs reporting for government-sponsored retirement plans.

For MERF, the ARC is defined to be the sum of (a) the employer normal cost, (b) the amount needed to amortize the UAAL as a level dollar amount through the amortization date of June 30, 2020 (11 years remaining as of July 1, 2009), and (c) additional amortization amounts.

Note to Auditor – This information is presented in draft form for review by the Fund’s auditor. Please let us know if there are any items that the auditor changes so that we may maintain consistency with the Fund’s financial statements.

SECTION B

FUNDING RESULTS

Principal Valuation Results as of June 30, 2009

Summary of Actuarial Valuation Results - New Asset Method

1.	Normal cost	$1,152,674	
2.	Actuarial accrued liability:		
	Active members	$91,517,794	
	Inactive members with vested rights	10,193,733	
	Annuitants in RBF	1,356,965,523	
	Annuitants not in RBF - Disability Benefits	57,741,358	
	Annuitants not in RBF - Survivor Benefits*	34,680,611	
	TOTAL Actuarial Accrued Liability		1,551,099,019
3.	Actuarial value of assets ($859,895,146 at market value as reported by the Fund)		880,133,155
4.	Liquidity Trigger Adjustment (Chapter 422A)		23,912,506
5.	Unfunded/(Overfunded) actuarial accrued liability (2. - 3. + 4.)		$694,878,370

The determination of the supplemental contribution rate is as follows:

1.	Present value of $1.00 per year paid monthly through the amortization date of June 30, 2020 (11 years remaining)	7.89
2.	Supplemental contribution (UAAL / 7.89)	$88,070,769

* *Increases under 1998 and 1999 legislation are not included in this liability, because the costs are excluded from state - provided funding.*

Summary of Actuarial Valuation Results - Old Asset Method

1.	Normal cost	$1,152,674	
2.	Actuarial accrued liability:		
	Active members	$91,517,794	
	Inactive members with vested rights	10,193,733	
	Annuitants in RBF	1,356,965,523	
	Annuitants not in RBF - Disability Benefits	57,741,358	
	Annuitants not in RBF - Survivor Benefits*	34,680,611	
	TOTAL Actuarial Accrued Liability		1,551,099,019
3.	Actuarial value of assets ($1,433,364,290 at market value as reported by the Fund)		1,453,602,299
4.	Liquidity Trigger Adjustment (Chapter 422A)		23,912,506
5.	Unfunded/(Overfunded) actuarial accrued liability (2. - 3. + 4.)		$121,409,226

The determination of the supplemental contribution rate is as follows:

1.	Present value of $1.00 per year paid monthly through the amortization date of June 30, 2020 (11 years remaining)	7.89
2.	Supplemental contribution (UAAL / 7.89)	$15,387,735

* *Increases under 1998 and 1999 legislation are not included in this liability, because the costs are excluded from state - provided funding.*

Determination of Contribution Sufficiency/(Deficiency) as of June 30, 2009 – New Asset Method

Determination of Contribution Sufficiency - New Asset Method

		July 1, 2009	
A.	**Statutory contributions - Chapter 422A**	**Percent of Payroll**	**Dollar Amount**
1.	Employee Contributions: 9.75% for 2009	9.75%	$1,057,081
2.	Employer Contributions See Formula*	69.01%	7,481,962
3.	Employer Contributions**	1.39%	150,590
4.	State Contributions	83.01%	9,000,000
5.	Total	163.16%	$17,689,633
B.	**Required Contributions - Chapter 356**		
1.	Normal Cost:		
	(a) Retirement	5.22%	$566,361
	(b) Disability	2.42%	262,127
	(c) Surviving spouse and child beneficiary	0.82%	89,180
	(d) Withdrawal	1.35%	146,137
	(e) Refund due to death or withdrawal	0.82%	88,869
	(f) Total	10.63%	$1,152,674
2.	Supplemental Contribution Amortization***	812.32%	88,070,769
3.	Supplemental Contribution Amortization**	1.39%	150,590
4.	Allowance for Administrative Expenses:	7.30%	791,120
	2009 Administrative Expenses ($760,692) loaded by 4.00%		
5.	Contribution Amortization for 1992 Investment Expenses	1.91%	207,000
6.	Total	833.55%	$90,372,154
C.	**Contribution Sufficiency/(Deficiency) (A.5 - B.6)**	-670.39%	
1.	Projected annual payroll for fiscal year beginning on the valuation date		$10,841,852

* *As a percent of payroll:*

10.63%	*Normal cost, plus*
7.30%	*Allowance for administrative expenses, plus*
1.91%	*Contribution amortization for 1992 investment expense, plus*
(9.75%)	*Employee contributions*
10.09%	*Employer normal cost, plus*
2.68%	*Supplemental contribution, plus*
35.97%	*$3,900,000 supplemental contribution*
20.27%	*Excess of $9,000,000 state contribution cap*
69.01%	*Total employer contributions, adjusted for rounding*

** *Increases under 1998 and 1999 legislation are included in this line item.*

*** *Increases under 1998 and 1999 legislation are not included in this line item.*

Determination of Contribution Sufficiency/(Deficiency) as of June 30, 2009 – Old Asset Method

Determination of Contribution Sufficiency - Old Asset Method

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(d) Withdrawal	1.35%	146,137
(e) Refund due to death or withdrawal	0.82%	88,869
(f) Total	10.63%	$1,152,674
2. Supplemental Contribution Amortization***	141.93%	15,387,735
3. Supplemental Contribution Amortization**	1.39%	150,590
4. Allowance for Administrative Expenses:	7.30%	791,120
2009 Administrative Expenses ($760,692) loaded by 4.00%		
5. Contribution Amortization for 1992 Investment Expenses	1.91%	207,000
6. Total	163.16%	$17,689,119
C. Contribution Sufficiency/(Deficiency) (A.5 - B.6)	0.00%	
1. Projected annual payroll for fiscal year beginning on the valuation date		$10,841,852

* *As a percent of payroll:*

10.63%	*Normal cost, plus*
7.30%	*Allowance for administrative expenses, plus*
1.91%	*Contribution amortization for 1992 investment expense, plus*
(9.75%)	*Employee contributions*
10.09%	*Employer normal cost, plus*
2.68%	*Supplemental contribution, plus*
35.97%	*$3,900,000 supplemental contribution*
20.27%	*Excess of $9,000,000 state contribution cap*
69.01%	*Total employer contributions, adjusted for rounding*

** *Increases under 1998 and 1999 legislation are included in this line item.*

*** *Increases under 1998 and 1999 legislation are not included in this line item.*

Experience Gain/(Loss) as of June 30, 2009

Actuarial Experience for Year Ended June 30, 2009

1.	Net (loss) from investments	-$270,171,052
2.	Net (loss) from other experience	-32,071,980
3.	Net experience (loss)	-$302,243,032

Experience Due to Changes in Demographics for Year ended June 30, 2009

1.	Age and service retirements	-$895,788
2.	Post-retirement mortality*	-280,213
3.	Salary increases less than assumed	442,861
4.	Benefit payment corrections and COLA	-42,425,498
5.	Other items	11,086,658
6.	Total	-$32,071,980

* *For the year ended June 30, 2009 the post-retirement mortality gain/(loss) has been actuarially determined as the liability change that occurs when mortality assumptions are not met.*

Development of Unfunded/(Overfunded) Actuarial Accrued Liability for Year Ended June 30, 2009

Development of Unfunded/(Overfunded) Actuarial Accrued Liability for Year Ended June 30, 2009

1.	Unfunded/(Overfunded) actuarial accrued liability at beginning of year*		$362,549,689
2.	Normal cost at beginning of year including expenses		1,546,554
3.	Total contributions		16,717,655
4.	Interest		
	(a) For whole year on (1) + (2)	$21,845,774	
	(b) For half year on (3)	501,530	
	(c) Total interest: (4a) - (4b)		21,344,244
5.	Expected unfunded/(overfunded) actuarial accrued liability: (1) + (2) - (3) + (4)		$368,722,832
6.	Changes due to (gain)/loss from:		
	(a) Investments		$270,171,052
	(b) Other Items		32,071,980
	(c) Total changes due to (gain)/loss		$302,243,032
7.	Liquidity Trigger Adjustment (Chapter 422A)		$23,912,506
8.	Unfunded/(Overfunded) actuarial accrued liability at end of year		$694,878,370

*Excluding Liquidity Trigger Adjustment

SECTION C

OTHER SPECIAL REQUIREMENTS

Allocation of Supplemental Contribution

Allocation of Supplemental Contribution

	July 1, 2009				
		Current Assets		Unfunded Actuarial Liability	
Employer	Active Fund Accrued Liability	Employee	Employer	Dollar Amount	% of Total UAL
MnSCU	$0	$0	-$65,007	$65,007	0.05%
City of MPLS	65,908,809	27,182,267	-64,503,589	103,230,131	85.03%
SSD1	22,271,035	9,327,895	-1,546,394	14,489,534	11.93%
Subtotal	$88,179,844	$36,510,162	-$66,114,990	$117,784,672	97.01%
Airport	3,337,950	1,338,352	-1,624,956	3,624,554	2.99%
Grand Total	$91,517,794	$37,848,514	-$67,739,946	$121,409,226	100.00%

Employer	2.68% of Payroll	Total Employer Contribution $3,900,000	Allocation of Remaining Employer Contribution	$1,000,000 Hypothetical Contribution Credit	Excess over State Contribution Cap $9,000,000	Total Employer Portion	Total State Portion	Total Supplemental Contribution
MnSCU	$0	$1,950	-$453	$17	$1,213	$2,727	$4,967	$7,694
City of MPLS	209,229	3,316,170	-280,962	26,205	1,925,670	5,196,312	7,887,879	13,084,191
SSD1	69,695	465,270	-80,330	3,678	270,290	728,603	1,107,154	1,835,757
Subtotal	$278,924	$3,783,390	-$361,745	$29,900	$2,197,173	$5,927,642	$9,000,000	$14,927,642
Airport	11,638	116,610	361,745	-29,900	0	460,093	0	460,093
Grand Total	$290,562	$3,900,000	$0	$0	$2,197,173	$6,387,735	$9,000,000	$15,387,735

Increases under 1998 and 1999 legislation are not included in this exhibit. Effective with the June 30, 2000 fiscal year, increases to non-RBF short service survivor benefits are paid in a one-time lump sum payment by each affected local employer. The billable amounts are shown on the next page. This allocation has been completed under the Old Asset Method, based upon instruction by MERF staff.

Increase in Unfunded Accrued Liability due to Benefit Improvement and Fiscal Year 2009 Annual Payment by Local Employer

Increase in Unfunded Accrued Liability due to Benefit Improvement

Employer	July 1, 1998 Short Service Survivor Benefit	January 1, 2010 Short Service Survivor COLA	Total
MnSCU	$0	$0	$0
City of MPLS	922,269	0	922,269
SSD1	254,414	0	254,414
Airport	11,474	0	11,474
Grand Total	$1,188,157	$0	$1,188,157

Increases under 1998 and 1999 legislation are shown in this exhibit.
Effective with the June 30, 2000 fiscal year, increases to non-RBF short service survivor benefits are paid in a one-time lump sum payment by each affected local employer. Increase in unfunded accrued liability is shown above.

Fiscal Year 2009 Annual Payment by Local Employer

Employer	July 1, 1998 Short Service Survivor Benefit	January 1, 2010 Short Service Survivor COLA	Total
MnSCU	$0	$0	$0
City of MPLS	116,891	0	116,891
SSD1	32,245	0	32,245
Airport	1,454	0	1,454
Grand Total	$150,590	$0	$150,590

Total Employer Contribution Amounts for Fiscal Year 2009

Total Employer Contribution Amounts for Fiscal Year 2009

July 1, 2009

Employer	Normal Cost % of Payroll	Supplemental Contribution % of Payroll	Supplemental Contribution Fixed $ Amount*	Short Service Survivor Additional Benefit Fixed $ Amount	1/1/2010 COLA Fixed $ Amount	Total
MnSCU	$0	$0	$2,727	$0	$0	$2,727
City of MPLS	787,732	209,229	4,987,083	116,891	0	6,100,935
SSD1	262,396	69,695	658,908	32,245	0	1,023,244
Airport	43,816	11,638	448,455	1,454	0	505,363
Grand Total	$1,093,944	$290,562	$6,097,173	$150,590	$0	$7,632,269

Employer	Payroll	Normal Cost % of Payroll	Supplemental Contribution % of Payroll	Supplemental Contribution Fixed $ Amount*	Short Service Survivor Additional Benefit Fixed $ Amount	1/1/2010 COLA Fixed $ Amount	Total
MnSCU	$0	10.09%	2.68%	0.00%	0.00%	0.00%	12.77%
City of MPLS	7,807,052	10.09%	2.68%	63.88%	1.50%	0.00%	78.15%
SSD1	2,600,553	10.09%	2.68%	25.34%	1.24%	0.00%	39.35%
Airport	434,247	10.09%	2.68%	103.27%	0.33%	0.00%	116.37%
Grand Total	$10,841,852	10.09%	2.68%	56.24%	1.39%	0.00%	70.40%

**Includes the excess of the $9,000,000 state contribution cap.*

SECTION D

FUND ASSETS

Statement of Plan Assets as of June 30, 2009
(Assets at Market Value) – New Asset Method

Summary Statement of Income and Expenses on a Market Value Basis for Year Ended June 30, 2009 - New Asset Method

	Non - RBF Assets	RBF Reserve	Market Value
A. Assets available at beginning of year (BOY)	$107,981,464	$1,106,541,186	$1,214,522,650
B. Operating Revenues:			
1. Employee Contributions	$1,072,129	$0	$1,072,129
2. Employer Contributions	6,645,526	0	6,645,526
3. State Contributions	9,000,000	0	9,000,000
4. Net Investment Income	-17,845,248	0	-17,845,248
5. RBF Income	0	-202,024,337	-202,024,337
6. Total Operating Revenue	-$1,127,593	-$202,024,337	-$203,151,930
C. Operating Expenses:			
1. Service Retirements	$0	$138,870,806	$138,870,806
2. Disability Benefits	5,728,764	0	5,728,764
3. Survivor Benefits	4,142,177	0	4,142,177
4. Refunds	88,278	0	88,278
5. Administrative Expenses	760,692	0	760,692
6. Employer Contributions on cash settlements	3,288	0	3,288
7. Interest Expenses due to New Retirement	1,881,569	0	1,881,569
8. Total Operating Expenses	$12,604,768	$138,870,806	$151,475,574
D. Other Changes in Reserves:			
1. Annuities Awarded	-$24,370,009	$24,370,009	$0
2. RBF Transfer of Reserves*	6,519,673	-6,519,673	0
3. Miscellaneous Changes	0	0	0
4. Total Other Changes	-$17,850,336	$17,850,336	$0
E. Assets available at end of year (EOY)	$76,398,767	$783,496,379	$859,895,146
F. Determination of Current Year Unrecognized Asset Return			
1. Average Balance:			
(a) Non-RBF Assets Available at BOY: (A)		$107,981,464	
(b) Non-RBF Assets Available at EOY**: (E) - (D.2.)		69,879,094	
(c) Average Balance [(a) + (b) - Net Investment Income] / 2		97,852,903	
2. Expected Return: 6.00% x (F.1.c.)		5,871,174	
3. Actual Return: (B.4.)		-17,845,248	
4. Current Year Unrecognized Asset Return: (F.3.) - (F.2.)		-$23,716,422	

* *Labeled as Mortality Gain/(Loss) in the Standards for Actuarial Work established by the State of Minnesota Legislative Commission on Pensions and Retirement*

** *Before adjustment for RBF Transfer of Reserves*

The determination of current year unrecognized asset return was completed under the methodology used for the Minnesota Post-Retirement Investment Fund, as stated in the Standards for Actuarial Work established by the State of Minnesota Legislative Commission on Pensions and Retirement, restated August 20, 2007, Section II.E. Asset Valuation. It is assumed that the same methodology for calculating the actuarial value of assets should be used for the MERF asset valuation method, which includes the MERF Retirement Benefit Fund.

Statement of Plan Assets as of June 30, 2009
(Assets at Market Value) – Old Asset Method

Summary Statement of Income and Expenses on a Market Value Basis for Year Ended June 30, 2009 - Old Asset Method

	Non - RBF Assets	RBF Reserve	Market Value
A. Assets available at beginning of year (BOY)	$107,981,464	$1,365,083,211	$1,473,064,675
B. Operating Revenues:			
1. Employee Contributions	$1,072,129	$0	$1,072,129
2. Employer Contributions	6,645,526	0	6,645,526
3. State Contributions	9,000,000	0	9,000,000
4. Net Investment Income	-17,845,248	0	-17,845,248
5. RBF Income	0	112,902,782	112,902,782
6. Total Operating Revenue	-$1,127,593	$112,902,782	$111,775,189
C. Operating Expenses:			
1. Service Retirements	$0	$138,870,806	$138,870,806
2. Disability Benefits	5,728,764	0	5,728,764
3. Survivor Benefits	4,142,177	0	4,142,177
4. Refunds	88,278	0	88,278
5. Administrative Expenses	760,692	0	760,692
6. Employer Contributions on cash settlements	3,288	0	3,288
7. Interest Expenses due to New Retirement	1,881,569	0	1,881,569
8. Total Operating Expenses	$12,604,768	$138,870,806	$151,475,574
D. Other Changes in Reserves:			
1. Annuities Awarded	-$24,370,009	$24,370,009	$0
2. RBF Transfer of Reserves*	6,519,673	-6,519,673	0
3. Miscellaneous Changes	0	0	0
4. Total Other Changes	-$17,850,336	$17,850,336	$0
E. Assets available at end of year (EOY)	$76,398,767	$1,356,965,523	$1,433,364,290
F. Determination of Current Year Unrecognized Asset Return			
1. Average Balance:			
(a) Non-RBF Assets Available at BOY: (A)		$107,981,464	
(b) Non-RBF Assets Available at EOY**: (E) - (D.2.)		69,879,094	
(c) Average Balance [(a) + (b) - Net Investment Income] / 2		97,852,903	
2. Expected Return: 6.00% x (F.1.c.)		5,871,174	
3. Actual Return: (B.4.)		-17,845,248	
4. Current Year Unrecognized Asset Return: (F.3.) - (F.2.)		-$23,716,422	

* *Labeled as Mortality Gain/(Loss) in the Standards for Actuarial Work established by the State of Minnesota Legislative Commission on Pensions and Retirement*

** *Before adjustment for RBF Transfer of Reserves*

Table of Financial Information as of June 30, 2009 – New Asset Method

Table of Financial Information for Year Ended June 30, 2009 - New Asset Method

		Market Value
Cash, Equivalents, Short-Term Securities		$5,395,115
Investments:		
Fixed Income		0
Equity		0
Other Assets		0
Equity in Retirement Benefit Fund (RBF)		783,496,379
Total Assets in Trust		$788,891,494
Assets Receivable		
Receivable assets per financial statement		$14,162,332
RBF Transfer of Reserves*:		
Equity in RBF	$1,356,965,523	
Expected Reserve Cumulative Total	1,363,485,196	
Total RBF Transfer of Reserves*		6,519,673
Other Assets Receivable		0
Total Assets Receivable		$20,682,005
Total Assets		$809,573,499
Amount Currently Payable		$29,223,021
Assets Available for Benefits		
Deposit Accumulation:		
Deposit Accumulation Reserve	-$9,665,573	
RBF Transfer of Reserves*	6,519,673	
Total Deposit Accumulation		-$3,145,900
Disability Benefits		44,150,217
RBF Reserves		783,496,379
Survivor Benefits		35,394,450
Net Assets at Market Value		$859,895,146
Net Assets at Actuarial Value		$880,133,155

* *Labeled as Mortality Gain/(Loss) in the Standards for Actuarial Work established by the State of Minnesota Legislative Commission on Pensions and Retirement; Market Value is equal to the $853,375,473 reported by MERF, plus the RBF Transfer of Reserves, pursuant to discussion with MERF staff.*

Table of Financial Information as of June 30, 2009 – Old Asset Method

Table of Financial Information for Year Ended June 30, 2009 - Old Asset Method

		Market Value
Cash, Equivalents, Short-Term Securities		$5,395,115
Investments:		
Fixed Income		0
Equity		0
Other Assets		0
Equity in Retirement Benefit Fund (RBF)		1,356,965,523
Total Assets in Trust		$1,362,360,638
Assets Receivable		
Receivable assets per financial statement		$14,162,332
RBF Transfer of Reserves*:		
Equity in RBF	$1,356,965,523	
Expected Reserve Cumulative Total	1,363,485,196	
Total RBF Transfer of Reserves*		6,519,673
Other Assets Receivable		0
Total Assets Receivable		$20,682,005
Total Assets		$1,383,042,643
Amount Currently Payable		$29,223,021
Assets Available for Benefits		
Deposit Accumulation:		
Deposit Accumulation Reserve	-$9,665,573	
RBF Transfer of Reserves*	6,519,673	
Total Deposit Accumulation		-$3,145,900
Disability Benefits		44,150,217
RBF Reserves		1,356,965,523
Survivor Benefits		35,394,450
Net Assets at Market Value		$1,433,364,290
Net Assets at Actuarial Value		$1,453,602,299

* *Labeled as Mortality Gain/(Loss) in the Standards for Actuarial Work established by the State of Minnesota Legislative Commission on Pensions and Retirement*

Determination of Actuarial Value of Assets as of June 30, 2009

Determination of Actuarial Value of Assets for the Year Ended June 30, 2009 - New Asset Method

		Original Amount	% Not Recognized	
1.	Market value of assets available for benefits			$859,895,146
2.	Calculation of unrecognized return			
(a)	Year ended June 30, 2009*	($23,716,422)	80%	($18,973,138)
(b)	Year ended June 30, 2008	(11,938,138)	60%	(7,162,883)
(c)	Year ended June 30, 2007	13,067,161	40%	5,226,864
(d)	Year ended June 30, 2006	3,355,740	20%	671,148
(e)	Total unrecognized return			($20,238,009)
3.	Actuarial value of assets: (1) - (2e)			$880,133,155

**For derivation, see Statement of Plan Assets*

Determination of Actuarial Value of Assets for the Year Ended June 30, 2009 - Old Asset Method

		Original Amount	% Not Recognized	
1.	Market value of assets available for benefits			$1,433,364,290
2.	Calculation of unrecognized return			
(a)	Year ended June 30, 2009*	($23,716,422)	80%	($18,973,138)
(b)	Year ended June 30, 2008	(11,938,138)	60%	(7,162,883)
(c)	Year ended June 30, 2007	13,067,161	40%	5,226,864
(d)	Year ended June 30, 2006	3,355,740	20%	671,148
(e)	Total unrecognized return			($20,238,009)
3.	Actuarial value of assets: (1) - (2e)			$1,453,602,299

**For derivation, see Statement of Plan Assets*

RBF Reserve: Market Value of Assets
Non-RBF Reserve: Market Value of Assets on the Valuation Date, less i.) 80% of the Excess Return/(Return Shortfall) in the twelve month period ending on the Valuation Date; 60% of the Excess Return/(Return Shortfall) in the twelve month period ending one year before the Valuation Date; 40% of the Excess Return/(Return Shortfall) in the twelve month period ending two years before the Valuation Date; and 20% of the Excess Return/(Return Shortfall) in the twelve month period ending three years before the Valuation Date. For purposes of this calculation, "Excess Return/(Return Shortfall)" is the amount by which the actual return on the Market Value of Assets, not held in MERF's Retirement Benefit Fund is less than the expected return on those assets based on the assumed interest rate employed in the July 1 actuarial valuation of the fiscal year.

History of Trust Fund

History of Trust Fund Through June 30, 2009

Year Ended June 30	Employer Contributions	Employee Contributions	State Contributions	Net Investment Return*	Change in Asset Method	Administrative Expenses	Benefit Payments	Actuarial Value of Assets at End of Year
1998	-	-	-	-	-	-	-	$ 1,207,065,000
1999	$ 14,722,996	$ 6,937,655	$ 7,032,750	$ 189,050,787	-	$ 858,663	$ 96,290,525	1,327,660,000
2000	13,013,923	6,069,060	3,085,000	174,870,360	-	742,134	107,465,209	1,416,491,000
2001	11,233,852	5,368,087	3,224,000	192,612,050	-	699,869	121,070,120	1,507,159,000
2002	12,260,956	4,779,661	4,510,000	143,429,981	-	748,180	131,170,418	1,540,221,000
2003	29,057,000	4,167,000	11,142,000	70,337,030	-	737,000	134,766,030	1,519,421,000
2004	38,366,010	3,342,960	7,093,000	83,699,126	-	717,952	137,815,281	1,513,388,863
2005	11,330,442	3,086,571	8,064,635	95,338,700	-	731,566	140,764,560	1,489,713,085
2006	35,953,244	2,312,034	9,000,000	98,582,438	-	792,843	144,487,895	1,490,280,063
2007**	19,545,176	1,665,151	9,000,000	121,452,274	$ (110,339,307)	665,282	147,196,313	1,383,741,762
2008**	6,405,104	1,431,245	8,866,510	(36,500,399)	-	690,456	148,948,614	1,214,305,152
2009**	6,645,526	1,072,129	9,000,000	(201,298,935)	-	760,692	148,830,025	880,133,155

** Net of investment fees*

***New Asset Method calculation for Actuarial Value of Assets*

SECTION E

ACCOUNTING DISCLOSURES

Schedule of Funding Progress

Supplementary Information Required by the GASB - Schedule of Funding Progress

Actuarial Valuation Date		Actuarial Value of Assets (a)		Actuarial Accrued Liability (AAL) (b)		Liquidity Trigger Adjustment (LTA) (c)	Unfunded/ (Overfunded) AAL (UAAL) (b) + (c)- (a)	Funded Ratio (a) / [(b)+(c)]	Actual Covered Payroll Previous FY (d)	UAAL as a Percentage of Covered Payroll [(b)+(c) - (a)] / (d)
7/1/2002		$1,540,221,000	*	$1,667,871,000	*	N/A	$127,650,000	92.35%	$43,461,000	293.71%
7/1/2003		1,519,421,000	*	1,645,921,000	*	N/A	$126,500,000	92.31%	40,537,000	312.06%
7/1/2004		1,513,388,863	*	1,643,139,996	*	N/A	$129,751,133	92.10%	33,266,242	390.04%
7/1/2005		1,489,713,085		1,624,354,645		N/A	$134,641,560	91.71%	27,479,148	489.98%
7/1/2006		1,490,280,063		1,617,653,312		N/A	$127,373,249	92.13%	21,668,671	587.82%
7/1/2007	**	1,383,741,762		1,610,881,229		N/A	$227,139,467	85.90%	17,295,702	1,313.27%
7/1/2008	**	1,214,305,152		1,576,854,841		$12,135,486	$374,685,175	76.42%	13,956,617	2,684.64%
7/1/2009	**	880,133,155		1,551,099,019		$23,912,506	$694,878,370	55.88%	10,979,348	6,328.96%

** Includes amortization obligations not yet paid.*

***New Asset Method calculation for Actuarial Value of Assets*

Schedule of Employer and Annual Required Contributions

Supplementary Information Required by the GASB - Schedule of Employer Contributions

Plan Year Ended June 30		Actuarially Required Contribution Rate (a)	Actual Covered Payroll (b)	Actual Member Contributions (c)	Annual Required Contributions [(a) x (b)] - (c) = (d)	Actual Employer Contributions* (e)	Percentage Contributed (e) / (d)
2002		41.78%	$43,461,000	$4,780,000	$13,378,000	$21,158,000	158.16%
2003		46.64%	40,537,000	4,167,000	14,739,000	40,199,000	272.73%
2004		52.49%	33,266,242	3,342,960	14,118,490	45,459,010	321.98%
2005		63.95%	27,479,148	3,086,571	14,478,100	19,395,077	133.96%
2006		75.07%	21,668,671	2,312,034	13,954,637	44,953,244	322.14%
2007		95.33%	17,295,702	1,665,151	14,822,842	28,545,176	192.58%
2008	**	187.33%	13,956,617	1,431,245	24,713,686	15,271,614	61.79%
2009	**	374.32%	10,979,348	1,072,129	40,025,766	15,645,526	39.09%

** Includes amortization obligations not yet paid*

***New Asset Method calculation for Actuarial Value of Assets*

Notes to Required Supplementary Information
(As Required by GASB Statement No. 25)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2009
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar
Remaining Amortization Period	11 years remaining as of July 1, 2009
Valuation Asset Method	RBF Assets: Market Value of Assets Non-RBF Reserve: Market Value of Assets on the Valuation Date, less i.) 80% of the Excess Return/(Return Shortfall) in the twelve month period ending on the Valuation Date; 60% of the Excess Return/(Return Shortfall) in the twelve month period ending one year before the Valuation Date; 40% of the Excess Return/(Return Shortfall) in the twelve month period ending two years before the Valuation Date; and 20% of the Excess Return/(Return Shortfall) in the twelve month period ending three years before the Valuation Date. For purposes of this calculation, “Excess Return/(Return Shortfall)” is the amount by which the actual return on the Market Value of Assets, not held in MERF’s Retirement Benefit Fund is less than the expected return on those assets based on the assumed interest rate employed in the July 1 actuarial valuation of the fiscal year.
Investment Rate of Return:	
• Pre-retirement	6.00% per annum
• Post-retirement	5.00% per annum
Projected Salary Increase	4.00% per annum
Cost-of-Living Adjustments	Annual post-retirement benefit increases are granted by incorporating one layer relating to the Consumer Price Index and a second layer relating to investment performance on a smoothed basis. Over the long term, the methodology is designed to provide increases based on the excess of fund earnings over 5.00%.

SECTION F

PARTICIPANT DATA

Summary of Membership Data by Category

Table of Plan Coverage

Category	Year Ended June 30 2009	Year Ended June 30 2008	Change From Prior Year
Active members in valuation:			
Number	174	211	-17.5%
Average age	59.2	58.1	N/A
Average service	34.6	33.5	N/A
Total projected payroll	$10,841,852	$12,697,639	-14.6%
Average projected pay	62,309	60,178	3.5%
Total active vested members	174	211	-17.5%
Vested terminated members	120	134	-10.4%
Retired participants:			
Number in pay status	3,468	3,577	-3.0%
Average age	73.6	73.3	N/A
Average monthly benefit	$2,869	$2,771	3.5%
Disabled members:			
Number in pay status	146	154	-5.2%
Average age	69.7	69.3	N/A
Average monthly benefit	$2,157	$2,103	2.6%
Beneficiaries in pay status	879	915	-3.9%

Historical Member Data

Member Population: 2003 - 2009

Year Ended June 30	Active Members	Vested Terminated Members*	Retired Participants and Beneficiaries	Ratio of Non-Actives to Actives
2003	705	189	4,960	7.30
2004	552	181	4,981	9.35
2005	462	174	4,908	11.00
2006	335	172	4,882	15.09
2007	266	156	4,771	18.52
2008	211	134	4,646	22.65
2009	174	120	4,493	26.51

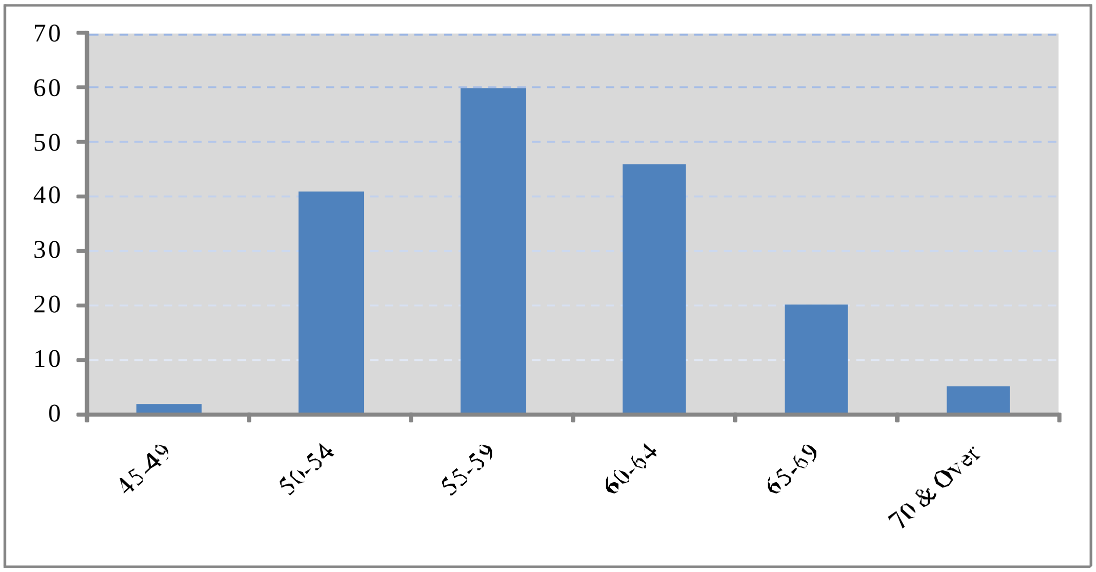
Reconciliation of Member Data

Reconciliation of Member Data

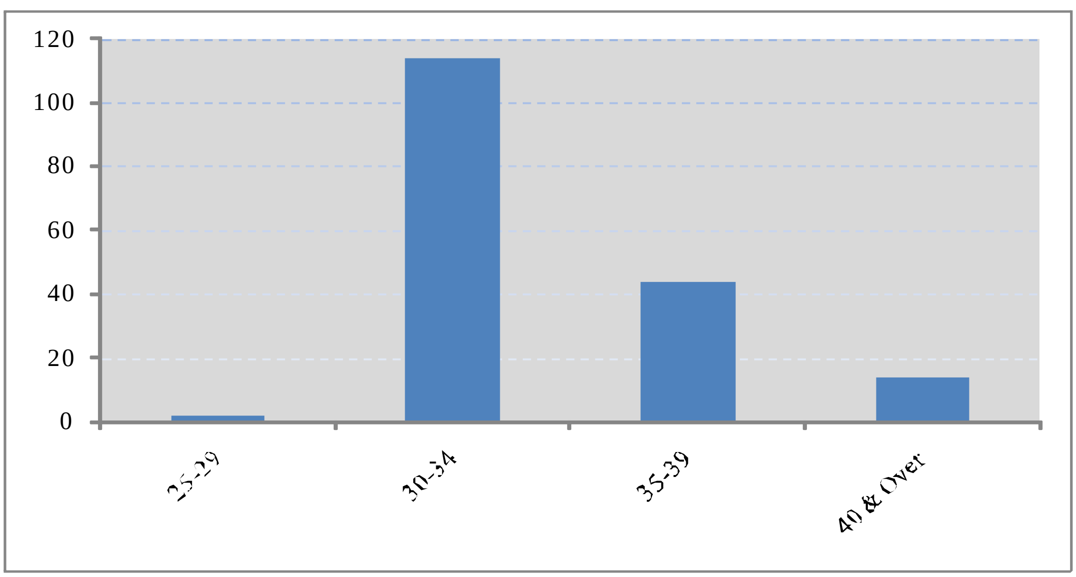
	Active Members	Vested Former Members	Disableds	Retired Participants	Beneficiaries	Total
Number as of July 1, 2008	211	134	154	3,577	915	4,991
New members	0	N/A	N/A	N/A	N/A	0
Terminations - with vested rights	0	0	0	0	0	0
Terminations - without vested rights	0	N/A	N/A	N/A	N/A	0
Retirements	-36	-13	N/A	49	N/A	0
New disabilities	0	0	0	N/A	N/A	0
Died with beneficiary	-1	0	-1	-46	51	3
Died without beneficiary	0	0	-7	-113	-87	-207
Estate - Expiry	0	0	0	0	0	0
Lump sum payoffs	0	-1	0	0	N/A	-1
Service buy back	N/A	0	0	1	0	1
Number as of July 1, 2009	174	120	146	3,468	879	4,787

Distribution of Active Members

Distribution of Active Members by Age as of June 30, 2009



Distribution of Active Members by Years of Service as of June 30, 2009



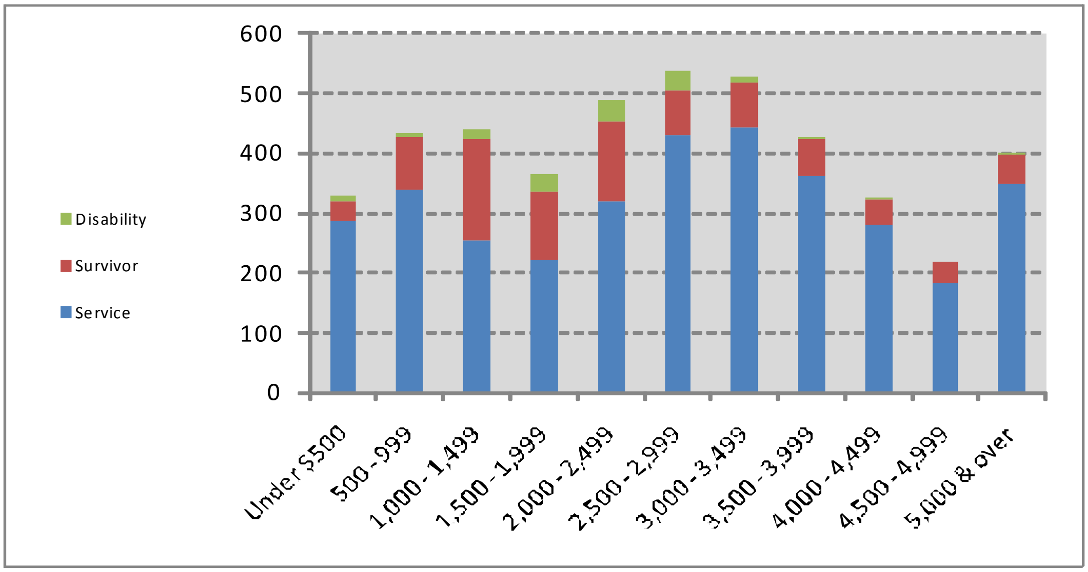
Active Members - Age and Service Distribution
As of June 30, 2009

Members in Active Service as of June 30, 2009
By Age, Years of Service and Average Projected Pay

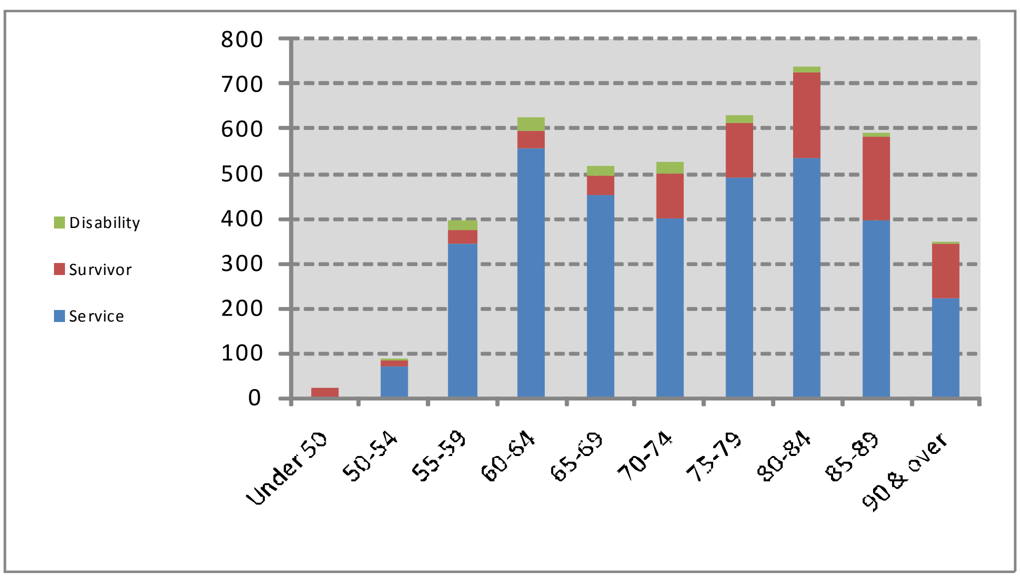
		Years of Service								
Age	**Total**	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30-34**	**35-39**	**40 & Over**
Under 25	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
25-29	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
30-34	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
35-39	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
40-44	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
45-49	2	-	-	-	-	-	-	2	-	-
	$85,658	-	-	-	-	-	-	$85,658	-	-
50-54	41	-	-	-	-	-	-	38	3	-
	60,523	-	-	-	-	-	-	60,470	$61,193	-
55-59	60	-	-	-	-	-	1	42	15	2
	65,057	-	-	-	-	-	$35,900	66,664	64,446	$50,467
60-64	46	-	-	-	-	-	1	25	14	6
	60,729	-	-	-	-	-	58,122	61,618	60,810	57,267
65-69	20	-	-	-	-	-	-	7	9	4
	63,215	-	-	-	-	-	-	53,406	70,407	64,199
70 & Over	5	-	-	-	-	-	-	-	3	2
	45,572	-	-	-	-	-	-	-	28,131	71,735
Total	174	-	-	-	-	-	2	114	44	14
	$62,309	-	-	-	-	-	$47,011	$63,012	$61,811	$60,343

Distribution of Pay Status Participants

Distribution of Retired Participants and Beneficiaries by Type and by Monthly Amount as of June 30, 2009



Distribution of Retired Participants and Beneficiaries by Type and by Age as of June 30, 2009



Retired Participants and Beneficiaries Reconciliation

Schedule of Retired Participants and Beneficiaries Added to and Removed from Rolls

	Added to Rolls		Removed from Rolls			End of Year			
Year Ended	Number	Annual Benefit	Number	Annual Benefit	Cost of Living Adjustment	Number	Annual Benefit	% Increase in Annual Benefit	Average Annual Benefit
6/30/2005	165	$4,757,922	238	$5,738,997	$4,159,782	4,908	$141,748,044	2.3%	$28,881
6/30/2006	192	$5,947,361	218	$5,687,760	$3,474,394	4,882	$145,482,039	2.6%	$29,800
6/30/2007	132	$4,424,191	243	$6,635,300	$4,769,994	4,771	$148,040,924	1.8%	$31,029
6/30/2008	125	$3,775,423	250	$7,205,367	$3,214,866	4,646	$147,825,846	-0.1%	$31,818
6/30/2009	101	$3,235,804	254	$7,248,252	$4,894,493	4,493	$148,707,891	0.6%	$33,098

SECTION G

VALUATION METHODS & ASSUMPTIONS

Valuation Methods & Assumptions

Mortality Rates:

Healthy: Average of male and female rates of 1986 Projected Experience Table with a 1-year age setback

Disabled: Average of male and female rates of 1986 Projected Experience Table with a 1-year age setback

Mortality & Disability Rates Before Retirement: Shown below for selected ages.

	Rate %		
Age	**Mortality**	**Withdrawal**	**Disability**
20	0.10	21.00	0.21
25	0.08	11.00	0.21
30	0.09	5.00	0.23
35	0.11	1.50	0.30
40	0.14	1.00	0.41
45	0.19	1.00	0.61
50	0.30	1.00	0.93
55	0.47	1.00	1.60
60	0.79	1.00	0
65	1.40	0	0
70	2.41	0	0

Retirement Rates: 100% at age 61.

Interest: Pre-Retirement – 6.00% per annum

Post-Retirement – 5.00% per annum

Salary Increases: Total reported pay for prior calendar year increased 1.98% (half year of 4.00%, compounded) to prior fiscal year and 4.00% annually for each future year.

Administrative Expenses: Prior year administrative expenses (excluding investment expenses) increased by 4.00% expressed as a percentage of projected annual payroll.

Investment Expenses: Investment expenses for the fiscal year ending June 30, 1992 are being amortized as follows:

Beginning Balance	Annual Payment	Years Remaining
$2,849,000	$207,000	11

Allowance for Combined Service Annuity: Liability for active members are increased by 0.2% and liabilities for former members (not in payment status) are increased by 30.0% to account for the effect of some participants having eligibility for a Combined Service Annuity.

Return of Contributions:	All members withdrawing after becoming eligible for a deferred benefit were assumed to take the larger of their contributions accumulated with interest or the value of their deferred benefit.
Unknown Data For Participants:	Same as those exhibited by participants with similar known characteristics.
Percent Married:	67% of active members are assumed to be married.
Age of Spouse:	Females are assumed to be three years younger than males.
Benefit Increases After Retirement:	Payment of increases based on the excess of Retirement Benefit Fund earnings over 5.00% is accounted for by using a 5.00% post-retirement interest assumption.
Asset Valuation Method:	RBF Reserve: Market Value Non-RBF Assets: Market Value of Assets on the Valuation Date less i.) 80% of the Excess Return/(Return Shortfall) in the twelve month period ending on the Valuation Date; 60% of the Excess Return/(Return Shortfall) in the twelve month period ending one year before the Valuation Date; 40% of the Excess Return/(Return Shortfall) in the twelve month period ending two years before the Valuation Date; 20% of the Excess Return/(Return Shortfall) in the twelve month period ending three years before the Valuation Date. For purposes of this calculation, "Excess Return/(Return Shortfall)" is the amount by which the actual return on the Market Value of Assets, not held in MERF's Retirement Benefit Fund is less than the expected return on those assets based on the assumed interest rate employed in the July 1 actuarial valuation of the fiscal year.
Actuarial Cost Method:	Entry Age Normal Actuarial Cost Method. Entry Age is the age at the time the participant commenced employment. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are expressed as a level percentage of payroll, with Normal Cost determined as if the current benefit accrual rate had always been in effect.
Payment on the Unfunded Actuarial Accrued Liability:	A level dollar amount each year to the statutory amortization date, adjusted for timing of expected receipt. Employers are assumed to contribute 73% of billed contribution amounts on a monthly basis during the plan year. The remaining 27% of contributions are assumed to be deferred to payment in subsequent plan years.
Changes in Actuarial Assumptions and Actuarial Cost Methods:	There have been no changes in the actuarial assumptions since the last valuation.

SECTION H

PLAN PROVISIONS

Plan Provisions

This summary of provisions reflects the interpretation of applicable Statutes by the Legislative Commission on Pensions and Retirement for purposes of preparing this valuation. This interpretation is not intended to create or rescind any benefit rights in conflict with any Minnesota Statutes.

Plan Year: July 1 through June 30

Employee Rule:

An employee of the City of Minneapolis, the Metropolitan Airports Commission, the Met Council/Environmental Services, the Municipal Employees Retirement Fund, and Special School District No. 1 if covered prior to July 1, 1978. New employees are covered by the Public Employees Retirement Association (PERA) Plan.

Effective July 1, 1992, licensed peace officers and firefighters who are employed by the Metropolitan Airports Commission and covered by the Minneapolis Employees Retirement Fund will receive the greater of retirement, disability, or survivor benefits computed under:

(a) the Minneapolis Employees Retirement Fund; or

(b) the Public Employees Retirement Association (PERA) Policy & Fire Plan.

Average Salary:

Salary Considered All amounts of salary, wages, or compensation.

Average Salary Average of the five highest calendar years of Salary out of the last ten calendar years.

Allowable Service: Service during which member contributions are made. Allowable Service may also include certain leaves of absence, military service, and service prior to becoming a member. Allowable Service also includes time on duty disability provided that the member returns to active service if the disability ceases.

Contributions:	
Member	9.25% of Salary into the deposit accumulation fund and 0.50% of Salary (subject to annual adjustment) into the survivor benefit fund.
Employer	Any excess of normal cost plus administrative expenses over the required member contributions of 9.75% of Salary. The unfunded actuarial liability is funded partially by payments each year of 2.68% of Salary plus $3,900,000 from all Employers. The Metropolitan Airports Commission and the Met Council / Environmental Services pay any remaining required contributions allocated to them. The State Contribution for the Minnesota State Colleges and Universities, the City of Minneapolis/Hennepin County, and the Minneapolis Special School District No. 1 is determined as the lesser of the remaining payments required or $9,000,000. If the value of the remaining payments is larger than $11,910,000, the excess is reallocated to the employers. If the value of the remaining payments is less than $11,910,000, no additional payment is required.
Normal Retirement Benefit:	
Age/Service Requirement	Age 60 and 10 years of employment. Any age with 30 years of employment. Proportionate Retirement Annuity is available at age 65 and 1 year of Allowable Service. Retirement is mandatory at age 70.
Amount	2.00% of Average Salary for the first 10 years of Allowable Service plus 2.50% of Average Salary for each subsequent year of Allowable Service.
Two Dollar Bill and Annuity:	
Age/Service Requirement	Age 55, 20 years of Allowable Service, and Allowable Service prior to June 28, 1973.
Amount	A pension based on the accumulation of annual installments of $2.00 per month for each year of Allowable Service using 6.00% interest plus an annuity based on the net accumulated contributions of the member. The combined pension and annuity is increased by three 25% increases where each increase is limited to $300 per year. Effective January 1, 2003, annual lump sum payment is divided by 12 and paid as monthly life annuity in the annuity form elected.

Disability Benefit:	
Age/Service Requirement	Total and permanent disability before age 60 with 5 years of Allowable Service, or no Allowable Service if a work-related disability.
Amount	2.00% of Average Salary for the first 10 years of Disability Service plus 2.50% of Average Salary for each subsequent year of Disability Service. Disability Service is the greater of (a) or (b) where: (a) equals Allowable Service plus service projected to age 60, subject to a maximum of 22 years, and (b) equals Allowable Service. Benefit is reduced by Workers' Compensation benefits. Payments stop at age 60, or earlier if disability ceases or death occurs. Benefits may be reduced on resumption of partial employment.
Disability After Separation:	
Age/Service Requirement	Total and permanent disability after electing to receive a retirement benefit but before age 60.
Amount	Actuarial equivalent of total credit to member's account.
Retirement After Disability:	
Age/Service Requirement	Total and permanent disability after electing to receive a retirement benefit but before age 60. Employee is still disabled after age 60.
Amount	Benefit continues according to the option selected.
Pre-Retirement Survivor's Spouse Benefit:	
Age/Service Requirement	Active member with 18 months of Allowable Service.
Amount	30% of Salary averaged over the last 6 months to the surviving spouse plus 10% of Salary averaged over the last 6 months to each surviving child. Minimum benefit is $900 per month.
Pre-Retirement Survivor's Spouse Annuity:	
Age/Service Requirement	Active member or former member who dies before retirement with 20 years of Allowable Service.
Amount	Actuarial equivalent of a single life annuity which would have been paid as a retirement benefit on the date of death without regard to eligibility age for retirement benefit. If there is no surviving spouse, the designated beneficiary may be a dependent child or dependent parent.

Refund of Accumulated City Contributions:	
Age/Service Requirement	Active member or former member dies after 10 years of Allowable Service and prior to retirement.
Amount	Present value of the City's annual installments of $60 or, in the case of a former member, the net accumulation of city deposits. This benefit is not payable if survivor's benefits are paid.
Lump Sum:	
Age/Service Requirement	Death prior to service or disability retirement without an eligible surviving beneficiary.
Amount	$750 with less than 10 years of Allowable Service, or $1,500 with 10 or more years of Allowable Service.
Refund of Member Contributions at Death:	
Age/Service Requirement	Active member or former member dies before retirement.
Amount	The excess of the member's contributions (exclusive of the contributions to the survivor's account) plus interest to the date of death.
Termination:	
Age/Service Requirement	Three years of Allowable Service.
Amount	Benefit computed under law in effect at termination and increased by the following annual percentage: (a) 0.00% prior to July 1, 1971, and (b) 5.00% from July 1, 1971 to January 1, 1981, and (c) 3.00% thereafter until the annuity begins. Amount is payable at or after age 60.
Refund of Member's Contributions Upon Termination:	
Age/Service Requirement	Termination of public service.
Amount	Member's contributions with interest.
Form of Payment:	Life annuity.
Benefit Increases:	Annual post-retirement benefit increases are granted in a manner similar to the statewide Minnesota Post-Retirement Investment Fund. The methodology incorporates one layer relating to the Consumer Price Index and a second layer relating to investment performance on a smoothed basis. Over the long term, the methodology is designed to provide increases based on the excess of fund earnings over 5.0%.
Changes in Plan Provisions:	There have been no changes to the plan provisions since the last valuation.

Allocation of State and Supplemental Contributions

State Contribution:	The State Contribution is limited to a maximum of $9,000,000 for each fiscal year and is equal to the portion of the Supplemental Contribution, which is not allocated to the employers. The Allocation of Supplemental Contribution is explained below, regarding the calculation of the State Contribution. The increase in unfunded accrued liability due to increases for short-term survivor benefits, either one-time adjustments or annual cost-of-living increases, is excluded from state-provided funding. The unfunded accrued liability as noted in this report, do not include liability generated due to such increases until the date on which the funding for such increases is collected or becomes a collectable to the fund. Under law, billing is generated by the Fund as of the February 1 occurring during the fiscal year. Both assets and liabilities are then considered part of the general non-RBF.
Allocation of Supplemental Contribution:	The total Supplemental Contribution is allocated among the employers and the State using the following method. 1. Each employer's current assets is equal to the actuarial value of assets, which is allocated on the basis of the sum of the market value of assets and the employee assets for each employer respectively as provided by MERF. 2. The unfunded accrued liability (Dollar Amount) for each employer is calculated as the Active fund accrued liability less current assets for the employee and employer, exclusive of any liability arising during the year due to 1998 or 1999 legislature as required by State statute. If, as of the valuation date, an employer's unfunded actuarial accrued liability is negative, the unfunded liability is deemed to be $0. The percentage of the total unfunded accrued liability is allocated by each employer's unfunded accrued liability dollar amount. 3. Each employer is charged 2.68% of payroll for the fiscal year. 4. The total employer contribution of $3,900,000 is allocated among the employers based on the unfunded accrued liability percentage – UAL% (2. above). 5. The initial Supplemental Contribution is allocated to each employer based on the UAL%. 6. The initial Supplemental Contribution for the Metropolitan Airport Commission is calculated as 5. less 3. less 4. above. 7. The State Contribution for each employer is calculated as 5. less 3. less 4. above for the Minnesota State Colleges and Universities, City of Minneapolis/Hennepin County, and the Minneapolis Special School District No. 1, less 6. above. By law, these are the only employers eligible to receive State Contributions, and Metropolitan Airport Commission is not eligible.

8. The State Contribution is determined as the lesser of the amount determined in 7. above or the State Contribution cap which is currently $9,000,000.
9. If the State Contribution (7. above) plus the Supplemental Contribution determined (6.above), is larger than $11,910,000, the excess of the State contribution over $11,910,000 is reallocated among the employers. The excess will first be allocated on the basis of 6. above and then to the employers listed in 7. above based on their respective UAL%. If the State Contribution is less than $11,910,000, no employer contribution is required under this item 9. The airport receives no allocation from the State.
10. The total employer contribution for each employer is determined as the initial Supplemental Contribution (5.above) less the total State Contribution (7.above).
11. A hypothetical contribution of $1,000,000 is allocated among the employers based on the UAL%, which is used to reduce employer contributions only for the Metropolitan Airport Commission by law. This reduction is reallocated to the remaining employers.
12. The allocation of the remaining employer contribution for each employer is calculated as the initial Supplemental Contribution (5. above), less the State Contribution (7. above), less the sum of the preliminary employer contributions (3. plus 4. above), less the $1,000,000 credit (11. above).
13. The total Supplemental Contribution is the sum of the total Employer Portion contribution (10. above) plus the total State Portion contribution (7. above).

The Allocation of Supplemental Contribution shows the development of the employer cost for each employer prior to consideration of 1998 and 1999 short service survivor benefit increases. Total employer cost is summarized in the table labeled Total Employer Contribution Amounts for the Fiscal Year.

SECTION I

GLOSSARY

Glossary

Actuarial Accrued Liability (AAL) The difference between the Actuarial Present Value of Future Benefits, and the Actuarial Present Value of Future Normal Costs.

Actuarial Assumptions Assumptions about future plan experience that affect costs or liabilities, such as: mortality, withdrawal, disablement, and retirement; future increases in salary; future rates of investment earnings; future investment and administrative expenses; characteristics of members not specified in the data, such as marital status; characteristics of future members; future elections made by members; and other items.

Actuarial Cost Method A procedure for allocating the Actuarial Present Value of Future Benefits between the Actuarial Present Value of future Normal Costs and the Actuarial Accrued Liability.

Actuarial Equivalent Of equal Actuarial Present Value, determined as of a given date and based on a given set of Actuarial Assumptions.

Actuarial Present Value (APV) The amount of funds required to provide a payment or series of payments in the future. It is determined by discounting the future payments with an assumed interest rate and with the assumed probability each payment will be made.

Actuarial Valuation The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a plan. An Actuarial Valuation for a governmental retirement Fund typically also includes calculations of items needed for compliance with GASB No. 25, such as the Funded Ratio and the Annual Required Contribution (ARC).

Actuarial Value of Assets The value of the assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets or a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the actuarially required contribution (ARC).

Amortization Method A method for determining the Amortization Payment. The most common methods used are level dollar and level percentage of payroll. Under the Level Dollar method, the Amortization Payment is one of a stream of payments, all equal, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the Amortization payment is one of a stream of increasing payments, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the stream of payments increases at the rate at which total covered payroll of all active members is assumed to increase.

Glossary

Amortization Payment	That portion of the plan contribution or ARC which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.
Amortization Period	The period used in calculating the Amortization Payment.
Annual Required Contribution (ARC)	The employer's periodic required contributions, expressed as a dollar amount or a percentage of covered plan compensation, determined under GASB No. 25. The ARC consists of the Employer Normal Cost and Amortization Payment.
Employer Normal Cost	The portion of the Normal Cost to be paid by the employer. This is equal to the Normal Cost less expected member contributions.
Experience Gain/Loss	A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two actuarial valuations. To the extent that actual experience differs from that assumed, Unfunded Actuarial Accrued Liabilities emerge which may be larger or smaller than projected. Gains are due to favorable experience, e.g., the assets earn more than projected, salaries do not increase as fast as assumed, members retire later than assumed, etc. Favorable experience means actual results produce actuarial liabilities not as large as projected by the actuarial assumptions. On the other hand, losses are the result of unfavorable experience, i.e., actual results that produce Unfunded Actuarial Accrued Liabilities which are larger than projected.
Funded Ratio	The ratio of the Actuarial Value of Assets to the Actuarial Accrued Liability.
GASB	Governmental Accounting Standards Board.
GASB No. 25 and GASB No. 27	These are the governmental accounting standards that set the accounting rules for public retirement systems and the employers that sponsor or contribute to them. Statement No. 27 sets the accounting rules for the employers that sponsor or contribute to public retirement systems, while Statement No. 25 sets the rules for the systems themselves.
Normal Cost	The annual cost assigned, under the Actuarial Cost Method, to the current plan year.
Unfunded Actuarial Accrued Liability	The difference between the Actuarial Accrued Liability and Actuarial Value of Assets.