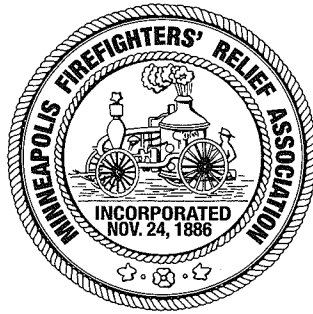


Minneapolis  
Firefighters'  
Relief Association  
*Pension Fund*



2021 EAST HENNEPIN AVENUE  
SUITE 360  
MINNEAPOLIS, MINNESOTA 55413-1830  
TELEPHONE 612/331-4255  
FAX 612/331-4104  
e mail admin@mfdra.com  
www.mfdra.com



May 23, 2007

Lawrence Martin  
Legislative Commission on  
Pensions and Retirement  
Room 55, State Office Building  
Saint Paul, Minnesota 55155

Dear Mr. Martin,

This letter is to inform you that we previously sent you a communication identifying that the MFRA had excess investment income and we would be providing a PRB to our members. In that communication our actuary gave us some incorrect data. We have since received corrected and accurate data and I have provided you, and all others concerned, with the enclosed revised letter to replace the first letter dated April 25<sup>th</sup> 2007.

The changes to the first letter are limited and I have included page 1 of our new and approved 2006 actuarial report for your edification on this matter. When the approved actuarial report has been received by the MFRA we will make certain that you receive that report immediately. It is currently in the hands of the State Auditor for their review.

If you need further assistance, please contact me.

Sincerely,

Walter C. Schirmer  
Executive Secretary

/WCS

cc: Rebecca Otto, Office of the State Auditor  
Tom Hanson, Commissioner of Finance

Mr. Lawrence Martin  
May 23, 2007  
Page 2

R. T. Rybak, Mayor of Minneapolis  
Minneapolis City Council Members  
Legislative Reference Library (6 copies)  
Cite: 2001 Minn. Laws 1<sup>st</sup> Spl. Sess. Chap. 10 Art. 15 Sec. 6 Subd.5  
Merry Keefe, City Clerk  
Brian Rice, Rice, Michels & Walther  
Mark Meyer, Van Iwaarden  
Paul Krueger, Van Iwaarden  
Robert Klausner, Klausner & Kaufman

1

**MINNEAPOLIS FIREFIGHTERS' RELIEF ASSOCIATION**  
*December 31, 2006 Actuarial Valuation of the Special Fund*

**Introduction**

**Purpose**

This report presents the results of the December 31, 2006 valuation for the Minneapolis Firefighters' Relief Association. Its primary purposes are:

- to determine the funded status as of December 31, 2006,
- to determine the normal cost for 2006, and
- to present information required to be disclosed under Governmental Accounting Standards Board Statement No. 25 (GASB 25) as of December 31, 2006.

**Sources of Data**

The Relief Association supplied December 31, 2006 data for all active and inactive members, and asset information, including the market and book value of investments as of December 31, 2006, and the amount of receivables and payables at year end. The Relief Association also provided historical salary increase rate and investment return values used in determining the actuarial value of assets. We have relied on this data in preparing this report.

**Changes from the Previous Valuation**

The prior actuarial valuation of the plan was prepared as of December 31, 2005. The actuarial assumptions and methods used to prepare this report are the same as those used in the 2005 report (see page 19). The most recent unit value established under the union contract is \$82.9674, effective as of October 15, 2006. Since the contract expired December 31, 2006, and the next contract has not yet been settled, we have projected this unit value at an annual rate of 4%, as directed by statute, to January 1, 2007. For projected benefits during 2007 we have used a unit value of \$83.6481. All future unit values are projected at 4% per year. Any additional changes under a future contract will be reflected in future reports.

For the 2005 report, based on the contract and unit values in effect at that time, we projected a unit value of \$82.5862 during 2006, and assuming 4% annual increases, a unit value of \$85.8896 for 2007. Since the projected unit value for 2007 based on this year's report is less (\$83.6481 instead of \$85.8896), the plan's actuarial liabilities are less than expected - an actuarial "gain" of \$8.1 million (see page 10, item A.3.b.)

**Summary of Valuation Results**

As of December 31, 2006, the funded status of the plan (actuarial accrued liabilities divided by the actuarial value of assets) is 87.5%, up from 86.2% on December 31, 2005. This improvement was largely due to the actuarial "gain" described above, and overcame a drop in the actuarial value of assets. Although the market value of assets increased from \$253,180,944 to \$263,951,959, with an investment return for the year of 12.46%, the *actuarial* value of assets declined from \$269,425,963 to \$263,275,562. The decline is a result of the smoothing method dictated by statute (see page 4).

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May 23, 2007

Lawrence Martin  
Legislative Commission on  
Pensions and Retirement  
Room 55, State Office Building  
Saint Paul, Minnesota 55155

Dear Mr. Martin,

According to 1989 Minnesota Laws, 423C.06 (b) (INVESTMENT RELATED POST RETIREMENT ADJUSTMENTS) the Board of Trustees of the Minneapolis Firefighters' Relief Association shall determine by May 1<sup>st</sup>, each year, whether or not the Relief Association has excess investment income.

I would like to notify you that the MFRA Board of Trustees have determined, according to Minnesota Laws, 423C.06, we are required to pay a Post Retirement Benefit to our retired members. At year-end 2006 our fund's excess investment income was \$2,639,520. We are required to distribute 1/2% of that amount to our members in the form of a Post Retirement Benefit We will be providing this benefit to our members on June 1, 2007.

Excess investment income means the amount by which the time weighted total rate of return earned by the fund, in the most recent prior five fiscal years, has exceeded the actual average percentage increase in the current monthly salary of a top grade firefighter, in the most recent five fiscal years plus two percent.

The following is the computation of excess investment income:

7.749%	Five-year average rate of return
3.155%	Five-year average monthly salary increase
<u>2.000%</u>	Plus two percent (constant)
5.155%	Five-year average monthly salary increase plus two percent
2.594%	Percent by which five-year average rate of return exceeds five-year average monthly salary increase plus two per cent.

Mr. Lawrence Martin  
May 23, 2007  
Page 2

\$263,951,959	December 31, 2006 market value of the fund
x 1.000%	
<u>\$ 2,639,520</u>	Total excess investment earnings

When the fund is under 102% the total amount paid, as a PRB, cannot exceed 1/2% of total assets and additionally, the amount of the previous years largest monthly benefit.

\$2,639,520	
<u>x .5%</u>	
\$ 1,319,760	Member portion of PRB

Since the MFRA no longer receives general fund amortization aid from the State, the additional ½ percent of assets that constitute excess investment income no longer serves as a credit against the lost aid. The MFRA plans to pursue legislation to address this irregularity.

Calendar years 2002 - 2006  
Percentage Increase of a Top Grade Firefighter's Salary  
Over a Five Year Period

2002	3.491%
2003	1.887%
2004	6.296%
2005	1.524%
2006	<u>2.576%</u>
15.774% / 5 = 3.155%	

Five-year average monthly salary increase 3.155%.

Calendar Years 2002 - 2006  
Total Rate of Return  
Over a Five Year Period

2002	(9.650)%
2003	20.000%
2004	10.047%
2005	5.890%
2006	<u>12.460%</u>
38.747% / 5 = 7.749%	

Five-year average percentage time weighted total rate of return is 7.749%.

7.749 % Five-year average rate of return  
3.155 % Five-year average increase in the monthly salary  
4.594 %

Since the five-year average percentage time weighted total rate of return exceeded the five-year average increase in monthly salary by more than 2%, the fund shall apply 1/2% of the excess investment income to the payment of an annual post retirement payment.

Payment to each eligible member must be calculated by dividing the total number of pension units, to which eligible members are entitled, into excess investment income available for distribution, and then multiplying that result times the number of units to which each eligible member is entitled.

The following is additional information on excess investment income:

Calendar Years 2002 - 2006  
Dollar and Percentage Increase of a Top Grade Firefighter's Salary over a Five Year  
Period

	<u>Dollar Increase</u>	<u>Percentage Increase</u>
2002	\$2,374.00	3.491%
2003	\$1,328.00	1.887%
2004	\$4,514.00	6.296%
2005	\$1,234.00	1.524%
2006	\$2,197.00	2.576%

$\$11,647 / 5 = \$2,329.40$

$16.130\% / 5 = 3.226\%$

5yr average dollar increase \$2,329.40

5yr average percentage increase is 3.226%

Total Number of Eligible Post Retirement Recipients and Total number of Post Retirement Benefit Units Payable:

Total Number of Recipients: 605

Total Number of PRB Units Payable in 2007: 21,471

Mr. Lawrence Martin  
May 23, 2007  
Page 4

December 31, 2006 Market Value and Book Value of the Special Fund

12/31/06 Market Value \$263,951,959

12/31/06 Book Value \$229,268,152

If you need further assistance, please contact me.

Sincerely,



Walter C. Schirmer  
Executive Secretary

WCS/km

cc: Rebecca Otto, Office of the State Auditor  
Tom Hanson, Commissioner of Finance  
R. T. Rybak, Mayor of Minneapolis  
Minneapolis City Council Members  
Legislative Reference Library (6 copies)  
Cite: 2001 Minn. Laws 1<sup>st</sup> Spl. Sess. Chap. 10 Art. 15 Sec. 6 Subd.5  
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07 - 0406

April 25, 2007

Lawrence Martin  
Legislative Commission on  
Pensions and Retirement  
Room 55, State Office Building  
Saint Paul, Minnesota 55155

Dear Mr. Martin,

According to 1989 Minnesota Laws, 423C.06 (b) (INVESTMENT RELATED POST RETIREMENT ADJUSTMENTS) the Board of Trustees of the Minneapolis Firefighters' Relief Association shall determine by May 1<sup>st</sup>, each year, whether or not the Relief Association has excess investment income.

I would like to notify you that the MFRA Board of Trustees have determined, according to Minnesota Laws, 423C.06, we are required to pay a Post Retirement Benefit to our retired members. At year-end 2006 our fund's excess investment income was \$2,644,468. We are required to distribute 1/2% of that amount to our members in the form of a Post Retirement Benefit We will be providing this benefit to our members on June 1, 2007.

Excess investment income means the amount by which the time weighted total rate of return earned by the fund, in the most recent prior five fiscal years, has exceeded the actual average percentage increase in the current monthly salary of a top grade firefighter, in the most recent five fiscal years plus two percent.

The following is the computation of excess investment income:

7.749%	Five-year average rate of return
3.226%	Five-year average monthly salary increase
<u>2.000%</u>	Plus two percent (constant)
5.226%	Five-year average monthly salary increase plus two percent
2.523%	Percent by which five-year average rate of return exceeds five-year average monthly salary increase plus two per cent.



Mr. Lawrence Martin  
 April 25, 2007  
 Page 2

\$264,446,750	December 31, 2006 market value of the fund
x <u>1.000%</u>	
\$ 2,644,468	Total excess investment earnings

When the fund is under 102% the total amount paid, as a PRB, cannot exceed 1/2% of total assets and additionally, the amount of the previous years largest monthly benefit.

\$2,644,468	
<u>x.5%</u>	
\$ 1,322,234	Member portion of PRB

Since the MFRA no longer receives general fund amortization aid from the State, the additional ½ percent of assets that constitute excess investment income no longer serves as a credit against the lost aid. The MFRA plans to pursue legislation to address this irregularity.

Calendar years 2002 - 2006  
Percentage Increase of a Top Grade Firefighter's Salary  
Over a Five Year Period

2002	3.491%
2003	1.887%
2004	6.296%
2005	1.619%
2006	<u>2.837%</u>
16.130% / 5 = 3.226%	

Five-year average monthly salary increase 3.226%.

Calendar Years 2002 - 2006  
Total Rate of Return  
Over a Five Year Period

2002	(9.650)%
2003	20.000%
2004	10.047%
2005	5.890%
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38.747% / 5 = 7.749%	

Five-year average percentage time weighted total rate of return is 7.749%.

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$16.130\% / 5 = 3.226\%$

Syr average dollar increase \$2,329.40

Syr average percentage increase is 3.226%

Total Number of Eligible Post Retirement Recipients and Total number of Post Retirement Benefit Units Payable:

Total Number of Recipients: 605

Total Number of PRB Units Payable in 2007: 21,471

December 31, 2006 Market Value and Book Value of the Special Fund

Mr. Lawrence Martin  
April 25, 2007  
Page 4

12/31/06 Market Value \$264,446,750

12/31/06 Book Value \$229,762,943

If you need further assistance, please contact me.

Sincerely,



Walter C. Schirmer  
Executive Secretary

WCS/km

cc: Rebecca Otto, Office of the State Auditor  
Tom Hanson, Commissioner of Finance  
R. T. Rybak, Mayor of Minneapolis  
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