December 2009

Local Government Correctional Service Retirement Fund

Actuarial Valuation Report as of July 1, 2009

MERCER

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Contents

Highlights

This report has been prepared by Mercer for the Public Employees Retirement Association of Minnesota to:

- Present the results of a valuation of the Local Government Correctional Service Retirement Fund as of July 1, 2009.
- Review experience under the Plan for the year ended June 30, 2009.
- Provide reporting and disclosure information for governmental agencies and other interested parties.

Contributions

The following table summarizes important contribution information as described in the "Development of Costs" section.

	Actuarial Valuation as of	
Contributions	**July 1, 2009**	**July 1, 2008**
Statutory Contributions – Chapter 353E (% of Payroll)	14.58%	14.58%
Required Contributions – Chapter 356 (% of Payroll)	14.03%	13.50%
Sufficiency / (Deficiency)	0.55%	1.08%

The contribution sufficiency decreased from 1.08% of payroll to 0.55% of payroll. On a market value of assets basis, the plan moved from a sufficiency of 0.59% of payroll to a deficiency of (2.19%) of payroll. The primary reason for the decline in funding sufficiency is the less than expected return on assets.

The "Plan Assets" section provides detail on the plan assets used for the valuation including a development of the actuarial value of assets. The market value of assets earned (18.7%) for the plan year ending June 30, 2009. **Only 20% of the asset loss for the plan year just ended will be recognized in the July 1, 2009 actuarial value of assets. The remainder will be recognized over the next four years.** The actuarial value of assets earned 2.3% for the plan year ending June 30, 2009 as compared to the assumed rate of 8.50%.

Participant reconciliation and statistics are detailed in the "Participant Data" section. The "Actuarial Basis" section includes a summary of plan provisions and actuarial methods and assumptions used for the calculations in this report. The "Plan Accounting" section details the required accounting information for the Plan under GASB Statement No. 25 (as amended by GASB Statement No. 50).

There were no changes in actuarial assumptions since the July 1, 2008 valuation. Changes in methods and plan provisions are reflected in this report and summarized in the Actuarial Basis section.

Principal Valuation Results

A summary of principal valuation results from the current valuation and the prior valuation follows. Any changes in plan provisions, actuarial assumptions or valuation methods and procedures between the two valuations are described after the summary.

	Actuarial Valuation as of	
	July 1, 2009	**July 1, 2008**
Contributions *(% of Payroll)*		
Statutory – Chapter 353E	14.58%	14.58%
Required – Chapter 356	14.03%	13.50%
Sufficiency / (Deficiency)	0.55%	1.08%
Funding Ratios *(dollars in thousands)*		
Accrued Benefit Funding Ratio		
– Current assets (AVA)	$ 217,577	$ 192,937
– Current benefit obligations	215,678	181,601
– Funding ratio	100.88%	106.24%
Accrued Liability Funding Ratio		
– Current assets (AVA)	$ 217,577	$ 192,937
– Market value of assets (MVA)	167,300	183,815
– Actuarial accrued liability	229,383	192,572
– Funding ratio (AVA)	94.85%	100.19%
– Funding ratio (MVA)	72.93%	95.45%
Projected Benefit Funding Ratio		
– Current and expected future assets	$ 404,073	$ 397,555
– Current and expected future benefit obligations	393,991	351,035
– Funding ratio	102.56%	113.25%
Participant Data		
Active members		
– Number	3,715	3,710
– Projected annual earnings *(000s)*	$ 172,770	$ 163,937
– Average annual earnings *(projected)*	$ 46,506	$ 44,188
– Average age	39.7	39.2
– Average service	5.6	5.1
Service retirements	267	208
Survivors	20*	15
Disability retirements	101	92
Deferred retirements	1,683	1,520
Terminated other non-vested	1,525	1,473
Total	**7,311**	**7,018**

* *Difference from number of survivors shown on page 14 is due to the inclusion of multiple survivors of members.*

Effects of Changes

The following changes in plan provisions and methods were recognized as of July 1, 2009:

Dissolution of Minnesota Post Retirement Investment Fund (Post Fund)

Since the Post Fund composite funding ratio was less than 80 percent as of June 30, 2008, the Post Fund was dissolved, and assets were transferred back to PERA and merged with the respective active member fund. The transfer of assets and liabilities occurred on June 30, 2009.

In conjunction with the dissolution, benefit recipients will receive future annual 2.5% cost-of-living adjustments (COLA) post-retirement.

The waiting period and proration schedule for the COLA paid in the fiscal year were also revised.

The Post Fund dissolution (other than the asset method change discussed below) and COLA changes did not have an impact on the valuation results.

Asset Method

For the purpose of determining the actuarial value of assets, the Post Fund asset loss for the fiscal year ending June 30, 2009 will be recognized incrementally over five years at 20% per year, similar to the smoothing of active fund assets. Prior to June 30, 2009, Post Fund asset gains and losses were not smoothed.

The change in the actuarial asset method for Post Fund assets reduced the required contribution by 0.13% of pay.

Certification

Mercer has prepared this report exclusively for Trustees of the Local Government Correctional Retirement Fund and the Legislative Commission on Pensions and Retirement (LCPR) for the following purposes:

- Present the results of a valuation of the Local Government Correctional Retirement Fund as of July 1, 2009 as required by Minnesota Statutes Section 356.215 and the requirements of the Standards of Actuarial Work established by the Minnesota Legislative Commission on Pensions and Retirement
- Review plan experience for the year ended June 30, 2009
- Provide the Annual Required Contribution for the period beginning July 1, 2009
- Provide reporting and disclosure information for financial statements for governmental agencies pursuant to GASB Statements Numbers 25 (as amended by GASB 50) and 27.

This valuation report may not be relied upon for any other purpose or by any party other than the Trustees, the LCPR, or the Plan's auditors solely for the purpose of completing an audit related to the matters herein. Mercer is not responsible for the consequences of any unauthorized use.

A valuation report is a snapshot of a plan's estimated financial condition at a particular point in time; it does not predict a plan's future financial condition or its ability to pay benefits in the future.

Over time, a plan's total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of people paid benefits, plan expenses and the amount earned on any assets invested to pay the benefits. These amounts and other variables are uncertain and unknowable at the valuation date, but are predicted to fall within a reasonable range of possibilities.

To prepare this report, *Actuarial Assumptions*, as described in the Actuarial Basis section, are used to select a single scenario from a range of possibilities. The results of that single scenario are included in this report. However, the future is uncertain and the plan's actual experience will differ from those assumptions; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different. Actuarial assumptions may also be changed from one valuation to the next because of changes in mandated requirements, plan experience, changes in expectations about the future and other factors. Due to the limited scope of our assignment, we did not perform, nor do we present, an analysis of the potential range of future possibilities and scenarios.

Because actual plan experience will differ from the assumptions, decisions about benefit changes, investment policy, funding amounts, benefit security and/or benefit-related issues should be made only after careful consideration of alternative future financial conditions and scenarios, and not solely on the basis of a valuation report or reports.

Data and plan provisions

To prepare this report, Mercer has used and relied on financial data submitted by the Fund as of June 30, 2009, as well as participant data supplied by the Fund as of June 30, 2009. We have reviewed the financial and participant data for internal consistency and general reasonableness, but we have not verified or audited any of the data or information provided. We have also used and relied on the plan documents, including amendments, supplied by the Fund. A summary of the plan provisions valued is presented in our report. The Fund is solely responsible for the accuracy, validity and comprehensiveness of this information. If the data or plan provisions supplied are not accurate and complete, the valuation results may differ significantly from the results that would be obtained with accurate and complete information; this may require a later revision of this report.

Certification

Actuarial Calculations, Methods and Assumptions

To the best of our knowledge and belief, this report is complete and accurate and all costs, liabilities and other factors under the plan were determined in accordance with generally accepted actuarial principles and procedures, and in accordance with the requirements of Minnesota Statutes Section 356.215 and the requirements of the Standards of Actuarial Work established by the LCPR. The economic assumptions, including discount rates, are set in Minnesota Statutes, and the remaining assumptions are adopted by the Trustees and the LCPR. This valuation is based on assumptions, plan provisions, methods and other parameters as summarized in this report. If this information is inaccurate or incomplete or does not reflect current statutes, regulations or Board directives, the reader of this report should not rely on the valuation results and should notify Mercer promptly. In our opinion, this report fully and fairly discloses the actuarial position of the plan on an ongoing basis.

Professional qualifications

We are available to answer any questions on the material in this report or to provide explanations or further details as appropriate. The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. In addition, Mr. Dickson meets the requirements of "approved actuary" under Minnesota Statutes, Section 356.215, Subdivision 1, Paragraph (c). We are not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest, that would impair the objectivity of our work.

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

Gary D. Dickson

12/3/2009

Gary D. Dickson, FSA, EA, MAAA
Principal

Date

Bonita J. Wurst

12/3/2009

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Supplemental Information

The remainder of the report includes information supporting the results presented in the previous sections.

- **Plan assets** presents information about the plan's assets as reported by the Public Employees Retirement Association and the Minnesota State Board of Investments. The fund assets represent the portion of total fund liabilities that has been funded.
- **Membership data** presents and describes the membership data used in the valuation.
- **Development of costs** shows the liabilities for plan benefits and the derivation of the contribution amount.
- **Actuarial basis** describes the plan provisions, as well as the methods and assumptions used to value the plan. The valuation is based on the premise that the plan is ongoing.
- **Plan accounting under GASB 25 (as amended by GASB 50)** shows the disclosures required by GASB Statement No. 25 as amended by GASB Statement No. 50.
- **Glossary** defines the terms used in this report.

Plan Assets

Statement of Plan Net Assets for Year Ended June 30, 2009 *(Dollars in Thousands)*

		Market Value
Assets in Trust		
▪ Cash, equivalents, short term securities	$	4,043
▪ Fixed income		33,159
▪ Equity		100,458
▪ SBI Alternative		29,467
Total assets in trust	**$**	**167,127**
Assets Receivable		442
Amounts Payable		(269)
Net assets held in trust for pension benefits	**$**	**167,300**

Plan Assets

Reconciliation of Plan Assets

The following exhibit shows the revenue, expenses and resulting assets of the Fund as reported by the Public Employees Retirement Association and the Minnesota State Board of Investment, for the Plan's Fiscal Year July 1, 2008 to June 30, 2009.

Change in Assets *(Dollars in Thousands)*	**Non-MPRIF Assets**	**MPRIF Reserve**	**Market Value**
1. Fund balance at market value at July 1, 2008	$ 175,815	$ 8,000	$ 183,815
2. Contributions			
a. Member	9,409	0	9,409
b. Employer	14,124	0	14,124
c. Other sources	0	0	0
d. Total contributions	23,533	0	23,533
3. Investment income			
a. Investment income	(33,930)	(2,059)	(35,989)
b. Investment expenses	(201)	(11)	(212)
c. Net subtotal	(34,131)	(2,070)	(36,201)
4. Other	35	0	35
5. Total income *(2.d. + 3.c. + 4.)*	**$ (10,563)**	**$ (2,070)**	**$ (12,633)**
6. Benefits Paid			
a. Annuity benefits	(1,626)	(1,210)	(2,836)
b. Refunds	(810)	0	(810)
c. Total benefits paid	(2,436)	(1,210)	(3,646)
7. Expenses			
a. Other	(17)	0	(17)
b. Administrative	(219)	0	(219)
c. Total Expenses	(236)	0	(236)
8. Total distributions *(6.c. + 7.c.)*	**(2,672)**	**(1,210)**	**(3,882)**
9. Other changes in reserves			
a. Annuities awarded	(2,225)	2,225	0
b. Transfer between reserves	7,344	(7,344)	0
c. Mortality gain/(loss) not transferred	(399)	399	0
d. Change in assumptions	0	0	0
e. Total other changes	4,720	(4,720)	0
10. Fund balance at market value at June 30, 2009 *(1. + 5. + 8. + 9.e.)*	**$ 167,300**	**$ 0**	**$ 167,300**

Plan Assets

Actuarial Asset Value *(Dollars in Thousands)*

					June 30, 2009
1. Market value of assets available for benefits				$	167,300
2. Determination of average balance					
a. Total assets available at July 1, 2008					183,815
b. Total assets available at June 30, 2009					167,300
c. Net investment income for fiscal year ending June 30, 2009					(36,166)
d. Average balance *[a. + b. – c.] / 2*					193,641
3. Expected return *[8.5% x 2.d.]*					16,460
4. Actual return					(36,166)
5. Current year unrecognized asset return *(4. – 3.)*					(52,626)
6. Unrecognized asset returns*					
		Original Amount	**% Not Recognized**		
a. Year ended June 30, 2009	$	(52,626)	80%	$	(42,101)
b. Year ended June 30, 2008		(23,619)	60%		(14,171)
c. Year ended June 30, 2007		13,050	40%		5,220
d. Year ended June 30, 2006		3,875	20%		775
e. Total unrecognized return				$	(50,277)
7. Actuarial value at June 30, 2009 *(1. – 6.e.)*				**$**	**217,577**

** Prior to the year ending June 30, 2009, unrecognized asset returns do not include Post Fund gains or losses.*

Membership Data

Distribution of Active Participants

	Years of Service June 30, 2009										
Age	**<3**	**3 - 4**	**5 - 9**	**10 - 14**	**15 - 19**	**20 - 24**	**25 - 29**	**30 - 34**	**35 - 38**	**40+**	**Total**
<25	252	25	3								**280**
Avg. Earnings	21,653	32,118	36,986								**22,752**
25 – 29	373	197	84								**654**
Avg. Earnings	27,160	40,912	44,861								**33,576**
30 – 34	159	104	221	30							**514**
Avg. Earnings	29,127	40,550	46,376	52,719							**40,231**
35 – 39	126	77	226	101							**530**
Avg. Earnings	26,847	38,918	48,858	55,042							**43,360**
40 – 44	113	61	198	146							**518**
Avg. Earnings	26,999	40,707	48,373	59,233							**45,868**
45 – 49	75	46	169	166							**456**
Avg. Earnings	25,497	37,674	49,049	58,840							**47,592**
50 – 54	48	34	135	157							**374**
Avg. Earnings	31,015	43,998	47,696	59,538							**50,190**
55 – 59	28	14	85	129							**256**
Avg. Earnings	26,769	39,504	46,193	55,475							**48,380**
60 – 64	15	2	39	57							**113**
Avg. Earnings	29,766	52,442	43,903	54,846							**47,697**
65 – 69	4	1	6	4							**15**
Avg. Earnings	16,715	2,665	34,560	49,699							**31,712**
70+	4			1							**5**
Avg. Earnings	30,470			58,832							**36,143**
Total	**1,197**	**561**	**1,166**	**791**	**0**	**0**	**0**	**0**	**0**	**0**	**3,715**
Avg. Earnings	**26,264**	**40,017**	**47,446**	**57,451**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**41,629**

In each cell, the top number is the count of active participants for the age/service combination and the bottom number is average annual earnings.

Membership Data

Distribution of Service Retirements

	Years Retired as of June 30, 2009							
Age	**<1**	**1 - 4**	**5 - 9**	**10 - 14**	**15 - 19**	**20 - 24**	**25+**	**Total**
<45								**0**
Avg. Benefit								**N/A**
45 – 49								**0**
Avg. Benefit								**N/A**
50 – 54	2	5						**7**
Avg. Benefit	5,830	6,009						**5,958**
55 – 59	19	36	3					**58**
Avg. Benefit	7,391	5,412	3,428					**5,958**
60 – 64	17	48	24					**89**
Avg. Benefit	7,019	5,213	2,544					**4,838**
65 – 69	7	40	36					**83**
Avg. Benefit	11,825	6,209	2,246					**4,964**
70 – 74	2	8	17					**27**
Avg. Benefit	5,526	4,651	1,401					**2,670**
75 – 79			3					**3**
Avg. Benefit			1,138					**1,138**
80 – 84								**0**
Avg. Benefit								**N/A**
85 – 89								**0**
Avg. Benefit								**N/A**
90+								**0**
Avg. Benefit								**N/A**
Total	**47**	**137**	**83**	**0**	**0**	**0**	**0**	**267**
Avg. Benefit	**7,771**	**5,552**	**2,162**	**N/A**	**N/A**	**N/A**	**N/A**	**4,889**

In each cell, the top number is the count of retired participants for the age/years retired combination and the bottom number is the average annual benefit amount.

Membership Data

Distribution of Survivors*

	Years Since Death as of June 30, 2009							
Age	**<1**	**1 - 4**	**5 - 9**	**10 - 14**	**15 - 19**	**20 - 24**	**25+**	**Total**
<45		3	2					**5**
Avg. Benefit		4,809	673					**3,154**
45 – 49		1						**1**
Avg. Benefit		2,112						**2,112**
50 – 54	1		2					**3**
Avg. Benefit	6,284		2,115					**3,505**
55 – 59		3	2					**5**
Avg. Benefit		6,136	2,187					**4,556**
60 – 64			2					**2**
Avg. Benefit			13,518					**13,518**
65 – 69		2	1					**3**
Avg. Benefit		3,512	1,150					**2,725**
70 – 74								**0**
Avg. Benefit								**N/A**
75 – 79	1							**1**
Avg. Benefit	7,648							**7,648**
80 – 84								**0**
Avg. Benefit								**N/A**
85 – 89								**0**
Avg. Benefit								**N/A**
90+								**0**
Avg. Benefit								**N/A**
Total	**2**	**9**	**9**	**0**	**0**	**0**	**0**	**20**
Avg. Benefit	**6,966**	**4,663**	**4,237**	**N/A**	**N/A**	**N/A**	**N/A**	**4,702**

In each cell, the top number is the count of survivors for the age/years since death combination and the bottom number is the average annual benefit amount.

* *Difference from number of survivors shown on page 14 is due to the inclusion of multiple survivors of members.*

Membership Data

Distribution of Disability Retirements

	Years Disabled as of June 30, 2009							
Age	**<1**	**1 - 4**	**5 - 9**	**10 - 14**	**15 - 19**	**20 - 24**	**25+**	**Total**
<45	2	9	1					**12**
Avg. Benefit	18,601	16,418	23,220					**17,349**
45 – 49	1	8	4					**13**
Avg. Benefit	9,948	14,701	25,189					**17,563**
50 – 54	1	13	8					**22**
Avg. Benefit	24,502	16,702	17,225					**17,247**
55 – 59	2	14	10					**26**
Avg. Benefit	13,950	15,384	12,580					**14,195**
60 – 64		13	14					**27**
Avg. Benefit		14,776	17,027					**15,943**
65 – 69		1						**1**
Avg. Benefit		8,200						**8,200**
70 – 74								**0**
Avg. Benefit								**N/A**
75 – 79								**0**
Avg. Benefit								**N/A**
80 – 84								**0**
Avg. Benefit								**N/A**
85 – 89								**0**
Avg. Benefit								**N/A**
90+								**0**
Avg. Benefit								**N/A**
Total	**6**	**58**	**37**	**0**	**0**	**0**	**0**	**101**
Avg. Benefit	**16,592**	**15,486**	**16,918**	**N/A**	**N/A**	**N/A**	**N/A**	**16,076**

In each cell, the top number is the count of disabled participants for the age/years since disability combination and the bottom number is the average annual benefit amount.

Membership Data

Reconciliation of Members*

		Terminated		Recipients			
	Actives	Deferred Retirement	Other Non-vested	Service Retirements	Disability Retirements	Survivors	Total
Members on 6/30/2008	**3,710**	**1,520**	**1,473**	**211**	**92**	**15**	**7,021**
New entrants	366	0	0	0	0	0	**366**
Return to active	35	(16)	(19)	0	0	0	**0**
Terminated non-vested	(163)	0	208	0	0	0	**45**
Service retirements	(45)	(11)	0	57	(1)	0	**0**
Terminated deferred	(116)	116	0	0	0	0	**0**
Terminated refund	(56)	(27)	(27)	0	0	0	**(110)**
Deaths	(3)	(3)	(1)	(3)	(5)	0	**(15)**
New beneficiary	0	0	0	0	0	3	**3**
Disabled	(13)	(3)	0	0	15	0	**(1)**
Data correction	0	107	(109)	2	0	0	**0**
Net change	5	163	52	56	9	3	**288**
Members on 6/30/2009	**3,715**	**1,683**	**1,525**	**267**	**101**	**18**	**7,309**

* *Provided by PERA and checked for reasonableness.*

Terminated deferred retirement statistics

- Average age 38.3 years
- Average service 2.6 years
- Average annual benefit, including augmentation $4,048

Development of Costs

Actuarial Valuation Balance Sheet *(Dollars in Thousands)*

The actuarial balance sheet is based on the fundamental equation that at any given time the present value of benefits to be paid in the future must be equal to the assets on hand plus the present value of future contributions to be received. The total rate of contribution is determined as that amount which will make the total present and potential assets balance with the total present value of future benefits. The members' rate of contribution is fixed at the current schedule of compensation. The Employer's rate of contribution is the balance required to cover the total rate of contribution.

The contributions made in excess of amounts required for current benefit payments are accumulated as a reserve to help meet benefit payments in later years. It is this reserve system which permits the establishment of a level rate of contribution each year.

				June 30, 2009
A. Actuarial Value of Assets				$ 217,577
B. Expected future assets				
1. Present value of expected future statutory supplemental contributions				$ 21,888
2. Present value of future normal cost contributions				164,608
3. Total present value of future contributions *(1. + 2.)*				$ 186,496
C. Total current and expected future assets *(A. + B.3.)*				$ 404,073
D. Current benefit obligations				
1. Benefit recipients	Non-Vested	Vested		Total
a. Service retirements	$ 0	$ 14,767		$ 14,767
b. Disability	0	19,009		19,009
c. Survivors	0	949		949
2. Deferred retirements with augmentation	0	32,773		32,773
3. Former members without vested rights	0	1,700		1,700
4. Active Members	6,817	139,663		146,480
5. Total Current Benefit Obligations	$ 6,817	$ 208,861		$ 215,678
E. Expected Future Benefit Obligations				178,313
F. Total Current and Expected Future Benefit Obligations *(D.5. + E.)*				$ 393,991
G. Unfunded Current Benefit Obligations *(D.5. – A.)*				$ (1,899)
H. Unfunded Current and Future Current Benefit Obligations *(F. – C.)*				$ (10,082)

Development of Costs

Determination of Unfunded Actuarial Accrued Liability and Supplemental Contribution Rate *(Dollars in Thousands)*

	Actuarial Present Value of Projected Benefits	Actuarial Present Value of Future Normal Costs	Actuarial Accrued Liability
A. Determination of Actuarial Accrued Liability (AAL)			
1. Active Members			
a. Retirement annuities	$ 234,688	$ 103,706	$ 130,982
b. Disability benefits	32,949	21,691	11,258
c. Survivor's benefits	8,494	4,132	4,362
d. Deferred retirements	48,662	35,079	13,583
e. Total	$ 324,793	$ 164,608	$ 160,185
2. Deferred retirements with future augmentation	32,773	0	32,773
3. Former members without vested rights	1,700	0	1,700
4. Annuitants	34,725	0	34,725
5. Total	$ 393,991	$ 164,608	$ 229,383

B. Determination of Unfunded Actuarial Accrued Liability (UAAL)	
1. Actuarial accrued liability	$ 229,383
2. Current assets (AVA)	217,577
3. Unfunded actuarial accrued liability	$ 11,806
C. Determination of Supplemental Contribution Rate	
1. Present value of future payrolls through the amortization date of July 1, 2023 (30 years if surplus assets)	$ 1,834,170
2. Supplemental contribution rate *(B.3. / C.1.)*	0.64%

Development of Costs

Changes in Unfunded Actuarial Accrued Liability (UAAL) *(Dollars in Thousands)*

		Year Ending June 30, 2009
A. Unfunded actuarial accrued liability at beginning of year	$	(365)
B. Changes due to interest requirements and current rate of funding		
1. Normal cost and expenses	$	22,138
2. Contributions		(23,533)
3. Interest on A., B.1. and B.2.		(90)
4. Total *(B.1. + B.2.+ B.3.)*	$	(1,485)
C. Expected unfunded actuarial accrued liability at end of year *(A. + B.4.)*	$	(1,850)
D. Increase (decrease) due to actuarial losses (gains) because of experience deviations from expected		
1. Salary increases	$	(1,372)
2. Investment return		14,741
3. Mortality of benefit recipients		(176)
4. Other items		2,712
5. Total	$	15,905
E. Unfunded actuarial accrued liability at end of year before plan amendments and changes in actuarial assumptions *(C. + D.5.)*	$	14,055
F. Change in unfunded actuarial accrued liability due to changes in plan provisions	$	0
G. Change in unfunded actuarial accrued liability due to changes in actuarial assumptions	$	0
H. Change in unfunded actuarial accrued liability due to change in actuarial methods	$	(2,249)
I. Unfunded actuarial accrued liability at end of year *(E. + F. + G.+ H.)*	$	11,806

Development of Costs

Determination of Contribution Sufficiency/(Deficiency) *(Dollars in Thousands)*

	Percent of Payroll		Dollar Amount
A. Statutory contributions – Chapter 353E			
1. Employee contributions	5.83%	$	10,073
2. Employer contributions	8.75%		15,117
3. Total	14.58%	$	25,190
B. Required contributions – Chapter 356			
1. Normal cost			
a. Retirement benefits	8.58%	$	14,818
b. Disability benefits	1.88%		3,254
c. Survivors	0.32%		550
d. Deferred retirement benefits	2.48%		4,282
e. Total	13.26%	$	22,904
2. Supplemental contribution amortization by July 1, 2023 of Unfunded Actuarial Accrued Liability	0.64%		1,109
3. Allowance for expenses	0.13%	$	227
4. Total	14.03%	$	24,240
C. Contribution Sufficiency/(Deficiency) *(A.3. – B.4.)*	0.55%	$	950

Note: Projected annual payroll for fiscal year beginning on the valuation date: $172,770.

Actuarial Basis

Actuarial Cost Method

Liabilities and contributions in this report are computed using the Individual Entry Age Normal Cost Method. This method is prescribed by Minnesota Statutes.

The objective under this method is to fund each members' benefits under the Plan as payments which are level as a percentage of salary, starting at original participation date (or employment date), and continuing until the assumed date of retirement, termination, disability or death.

At any given date, a liability is calculated equal to the contributions which would have been accumulated if this method of funding had always been used, the current plan provisions had always been in place, and all assumptions had been precisely accurate. The difference between this liability and the assets (if any) which are held in the fund is the unfunded liability. The unfunded liability is typically funded over a chosen period in accordance with the amortization schedule.

A detailed description of the calculation follows:

The normal cost for each active member under the assumed retirement age is determined by applying to full-career earnings the level percentage of salary which, if contributed each year from date of entry into the Plan until the assumed retirement (termination, disability or death) date, is sufficient to provide the full value of the benefits expected to be payable.

- The present value of present value of future normal costs is the total of the discounted values of all active members' normal cost, assuming these to be paid in each case from the valuation date until retirement (termination, disability or death) date.
- The present value of projected benefits is calculated as the value of all benefit payments expected to be paid to the Plan's current members, including active and retired members, beneficiaries, and terminated members with vested rights.
- The accrued liability is the excess of the present value of projected benefits over the present value of future normal costs.
- The unfunded liability is the excess of the accrued liability over the assets of the fund, and represents that part of the accrued liability which has not been funded by accumulated past contributions.

Actuarial Basis

Asset Valuation Method

Assets: The assets are valued based on a five-year moving average of expected and market values (five-year average actuarial value) determined as follows:

- At the end of each plan year, an average asset value is calculated as the average of the market asset value at the beginning and end of the fiscal year net of investment income for the fiscal year;
- The investment gain or (loss) is taken as the excess of actual investment income over the expected investment income based on the average asset value as calculated above;
- The investment gain or (loss) so determined for the fiscal year is recognized over five years at 20% per year;
- The asset value is the sum of the market value plus the scheduled recognition of investment gains or (losses) during the current and the preceding four fiscal years.

Changes in Asset Valuation Method

For the purpose of determining the actuarial value of assets, the Post Fund asset loss for the fiscal year ending June 30, 2009 is recognized incrementally over five years at 20% per year, similar to the smoothing of active fund assets. Prior to June 30, 2009, Post Fund asset gains and losses were not smoothed.

Payment on the Unfunded Actuarial Accrued Liability

A level percentage of payroll each year to the statutory amortization date of July 1, 2023 assuming payroll increases of 4.50% per annum. If there is a negative Unfunded Actuarial Accrued Liability, the surplus amount shall be amortized over 30 years as a level percentage of payroll.

Benefits included or excluded

To the best of our knowledge, all material benefits have been included in the liability.

IRC Section 415(b): The limitations of Internal Revenue Code Section 415(b) have been incorporated into our calculations.

IRC Section 401(a)17: The limitations of Internal Revenue Code Section 401(a)(17) have been incorporated into our calculations.

Funding Objective

The fundamental financing objective of the fund is to establish contribution rates which, when expressed as a percentage of active member payroll, will remain approximately level from generation to generation and meet the required deadline for full funding.

Actuarial Basis

Summary of Actuarial Assumptions

The following assumptions were used in valuing the liabilities and benefits under the plan.

Investment return:	8.5% compounded annually pre-retirement. 6.0% compounded annually post-retirement.
Benefit increases after retirement	Payment of 2.5% annual cost-of-living adjustments after retirement accounted for by using a 6.0% post-retirement assumption, as required by statute.
Salary increases	Reported salary at valuation date increased according to the rate table to current fiscal year and annually for each future year. Prior fiscal year salary is annualized for new members.
Mortality rates	
Healthy Pre-retirement	1983 Group Annuity Mortality for males set back one year 1983 Group Annuity Mortality for females
Healthy Post-retirement	1983 Group Annuity Mortality for males set forward two years 1983 Group Annuity Mortality for females set forward two years
Disabled	Combined Annuity Mortality
Retirement	Age related table as follows: Ages: 50-53 2.0% 54 5.0% 55 25.0% 56-59 10.0% 60-61 20.0% 62-64 40.0% 65-69 50.0% 70 & over 100.0%
Withdrawal	Graded rates based on actual experience of the Local Government Service Retirement Fund. Rates are shown in rate table.
Disability	Rates are shown in rate table.
Allowance for Combined Service Annuity	Liabilities for former members are increased by 30.00% to account for the effect of some participants having eligibility for a Combined Service Annuity.
Administrative expenses	Prior year administrative expenses expressed as percentage of prior year payroll.
Refund of contributions	All employees withdrawing after becoming eligible for a deferred benefit take the larger of their contributions accumulated with interest or the value of their deferred benefit.
Percentage married	85% of members are assumed to be married.
Age of spouse	Wives are assumed to be three years younger than their husbands. For members in payment status, actual spouse date of birth is used if provided. Retiring members are assumed to have no dependent children.

Actuarial Basis

Summary of Actuarial Assumptions *(continued)*

Form of payment	Married members assumed to elect subsidized joint and survivor form of annuity as follows: Males: 25.0% elect 50% J&S option 25.0% elect 100% J&S option Females: 5.0% elect 50% J&S option 5.0% elect 100% J&S option
Unknown data for members	To prepare this report, Mercer has used and relied on participant data supplied by the Fund. We have reviewed the participant data for internal consistency and general reasonableness, but we have not verified or audited any of the data or information provided. In cases where submitted data was missing or incomplete, the following assumptions were applied: Data for active members: Date of birth: July 1, 1964 Gender: Female Salary: Prior year salary Data for terminated members: Date of birth: July 1, 1964 Gender: Female Allowable service: 9 years
Changes in actuarial assumptions	None

Actuarial Basis

Summary of Actuarial Assumptions *(continued)*

Summary of Rates

	Rate (%)					
	Pre-Retirement Mortality		Ultimate Withdrawal		Disability	Salary Increase
Age	Male	Female	Male	Female		
20	0.04%	0.02%	24.00%	16.00%	0.04%	7.75%
25	0.04	0.03	14.70	14.20	0.06	7.00
30	0.06	0.03	9.10	13.50	0.08	7.00
35	0.08	0.05	6.00	12.90	0.11	7.00
40	0.11	0.07	4.40	10.40	0.18	6.50
45	0.19	0.10	3.40	6.40	0.29	5.75
50	0.35	0.16	2.40	4.70	0.50	5.50
55	0.57	0.25	1.40	3.30	0.88	5.25
60	0.84	0.42	0.00	0.00	1.41	5.25
65	1.29	0.71	0.00	0.00	0.00	5.25
70	2.48	1.24	0.00	0.00	0.00	5.25

Actuarial Basis

Summary of Plan Provisions

This summary of provisions reflects the interpretation of applicable Statutes 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
Eligibility	Local government employees in covered correctional service for a county-administered jail or correctional facility or in a regional correctional facility administered by multiple counties, who are directly responsible for security, custody and control of persons confined in jail or facility, who are expected to respond to incidents within the jail or facility, and who are not members of the Public Employees Police and Fire Fund.
Contributions	Shown as a percent of salary: Member: 5.83% of salary. Employer 8.75% of salary. Employee contributions are "picked up" according to the provisions of Internal Revenue Code 414(b).
Allowable service	Local Government Correctional Service during which member contributions were made. May also include certain leaves of absence, military service and periods while temporary Worker's Compensation is paid.
Salary	Includes wages, allowances and fees: Excludes lump sum payments at separation and reduced salary while receiving Worker's Compensation benefits.
Average salary	Average of the five highest successive years of salary. Average Salary is based on all Allowable Service if less than five years.
Retirement	
Normal retirement benefit	
Age/Service requirements	Age 55 and three years of Allowable Service. Proportionate retirement annuity is available at age 65 and one year of Allowable Service.
Amount	1.9% of Average Salary for each year of Allowable Service, pro rata for completed months.
Early retirement	
Age/Service requirements	Age 50 and three years of Allowable Service.
Amount	Normal Retirement Benefit based on Allowable Service and Average Salary at retirement date with actuarial reduction to commencement age assuming 3% augmentation to age 55.
Form of payment	Life annuity. Actuarially equivalent options are: 25%, 50%, 75% or 100% Joint and Survivor with bounce back feature without additional reduction.

Actuarial Basis

Summary of Plan Provisions *(continued)*

Retirement *(continued)*	
Benefit increases	Benefit recipients will receive future annual 2.5% cost-of-living adjustments (COLA). A benefit recipient who has been receiving a benefit for at least 12 full months as of December 31 will receive a full increase. Members receiving benefits for at least one full month but less than 12 full months will receive a pro rata increase.
Disability	
Duty disability	
Age/service requirement	Member who cannot perform his duties as a direct result of a disability relating to an act of duty specific to protecting the property and personal safety of others.
Amount	47.50% of Average Salary plus 1.90% of Average Salary for each year in excess of 25 years of Allowable Service (pro rata for completed months). Payment begins at disability and ends at age 65 or earlier if disability ceases or death occurs. Benefits may be paid upon re-employment but salary plus benefit cannot exceed current salary of position held at time of disability.
Regular disability	
Age/service requirement	At least one year of Allowable Service and a disability preventing member from performing normal duties that arise out of activities not related to covered employment or while at work, activities related to duties that do not present inherent dangers specific to occupation.
Amount	Normal Retirement Benefit based on Allowable Service (minimum of 10 years) and Average Salary at disability. Payment begins at disability and ends at age 65 or earlier if disability ceases or death occurs. Benefits may be paid upon re-employment but salary plus benefit cannot exceed current salary of position held at time of disability.
Retirement benefit	
Age/service requirement	Age 65 with continued disability.
Amount	Any optional annuity continues. Otherwise, the larger of the disability benefit paid before age 65 or the normal retirement benefit available at age 65, or an actuarially equivalent optional annuity.
Form of payment	Same as for retirement.
Benefit increases	Same as for retirement.

Actuarial Basis

Summary of Plan Provisions *(continued)*

Death	
Surviving spouse benefit	
Age/service requirement	Member at any age or former member age 50 or older who dies before retirement or disability benefit commences with three years of Allowable Service. If an active member dies, benefits may commence immediately, regardless of age.
Amount	Surviving spouse receives the 100% joint and survivor benefit using the Normal Retirement formula above. If commencement is prior to age 50, the appropriate early retirement formula described above applies except that one-half the monthly reduction factor is used from age 50 to the commencement age. In lieu of this benefit, the surviving spouse may elect a refund of contributions with interest or an actuarially equivalent term certain annuity (lump sum payable to estate at death).
Benefit increases	Same as for retirement.
Surviving dependent children's benefit	
Age/service requirement	If no surviving spouse, all dependent children (biological or adopted) below age 20 who are dependent for more than half of their support on deceased member.
Amount	Actuarially equivalent to surviving spouse 100% joint and survivor annuity payable to the later of age 20 or five years. The amount is to be proportionally divided among surviving children.
Refund of contributions	
Age/service requirement	Active employee dies and survivor benefits are not payable or a former employee dies before annuity begins. If accumulated contributions with interest exceed total payments to the surviving spouse and children, then the remainder is paid out.
Amount	The member's contributions with 6.00% interest.

Actuarial Basis

Summary of Plan Provisions *(continued)*

Termination	
<u>*Refund of contributions*</u>	
Age/service requirement	Termination of local government service.
Amount	Member's contributions with 6.00% interest compounded annually. A deferred annuity may be elected in lieu of a refund if three or more years of Allowable Service.
<u>*Deferred benefit*</u>	
Age/service requirement	Three years of Allowable Service.
Amount	Benefit computed under law in effect at termination and increased by 3.00% compounded annually until January 1 of the year following attainment of age 55 and 5.00% (2.50% if hired after June 30, 2006) thereafter until the annuity begins.
<u>*Form of payment*</u>	Same as for retirement.
Combined Service Annuity	Members who have at least one-half year of allowable service must have their benefit based on the following: (a.) Allowable service in all covered plans are combined in order to determine eligibility for early retirement. (b.) Average salary is based on the high five consecutive years during their entire service in all covered plans
Changes in Plan Provisions	<u>Dissolution of Minnesota Post Retirement Investment Fund (Post Fund)</u> Since the Post Fund composite funding ratio was less than 80 percent as of June 30, 2008, the Post Fund was dissolved, and assets were transferred back to PERA and merged with the respective active member fund. The transfer of assets and liabilities occurred on June 30, 2009. In conjunction with the dissolution, benefit recipients will receive future annual 2.5% cost-of-living adjustments (COLA). The waiting period and proration schedule for the COLA paid in the first year of retirement were also revised.

Plan Accounting Under GASB 25 (as amended by GASB 50)*

Provided below is information required under GASB Statement No. 25 as amended by GASB Statement No. 50 – Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans as amended by GASB Statement No. 50.

Schedule of Funding Progress *(Dollars in Thousands)*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b) – (a)	Funded Ratio (a)/(b)	Actual Covered Payroll (Previous FY) (c)	UAAL as a Percentage of Covered Payroll (b) – (a) / (c)
07/01/2000	$ 11,116	$ 10,195	$ (921)	109.03%	$ 70,690	(1.30%)
07/01/2001	25,014	25,453	439	98.28%	91,025	0.48%
07/01/2002	40,105	42,144	2,039	95.16%	101,309	2.01%
07/01/2003	56,487	62,542	6,055	90.32%	110,296	5.49%
07/01/2004	75,515	85,693	10,178	88.12%	109,600	9.29%
07/01/2005	98,156	108,926	10,770	90.11%	116,849	9.22%
07/01/2006	125,776	133,306	7,530	94.35%	125,189	6.01%
07/01/2007	159,548	162,169	2,621	98.38%	134,117	1.95%
07/01/2008	192,937	192,572	(365)	100.19%	154,202	(0.24%)
07/01/2009	217,577	229,383	11,806	94.85%	154,650	7.63%

* *Information prior to 2008 provided by The Segal Company.*

Plan Accounting Under GASB 25 (as amended by GASB 50)*

Schedule of Contributions from the Employer and Other Contributing Entities *(Dollars in Thousands)*

The GASB Statement No. 25 (as amended by GASB 50) required and actual contributions are as follows:

Plan Year Ended June 30	Actuarially Required Contribution Rate[1] (a)	Actual Covered Payroll (b)	Actual Member Contributions (c)	Annual Required Contributions [(a)x(b)] – (c) = (d)	Actual Employer Contributions[2] (e)	Percentage Contributed (e)/(d)
2000	15.03%	$ 70,690	$ 4,382	$ 6,243	$ 6,487	103.91%
2001[3]	14.36%	91,025	5,308	7,763	8,054	103.75%
2002	14.21%	101,309	5,882	8,514	8,830	103.71%
2003[4]	14.10%	110,296	6,430	9,122	9,645	105.74%
2004	14.15%	109,600	6,672	8,837	10,029	113.50%
2005	13.06%	116,849	7,192	8,068	10,814	134.03%
2006	13.09%	125,189	7,881	8,507	11,826	139.02%
2007	12.71%	134,117	8,335	8,712	12,499	143.48%
2008[5]	12.37%	154,202	8,922	10,153	13,388	131.87%
2009	13.50%	154,650	9,409	11,469	14,124	123.15%
2010[6]	14.03%					

* *Information prior to 2008 provided by The Segal Company.*

[1] *Actuarially Required Contributions calculated according to parameters of GASB 25 with no assumption for growth of covered population.*
[2] *Includes contributions from other sources (if applicable).*
[3] *Actuarially Required Contributions Rate prior to change in Asset Valuation Method is 14.38%.*
[4] *Actuarially Required Contribution Rate prior to change in Actuarial Assumptions is 14.08%.*
[5] *Actuarially Required Contribution Rate prior to change in Asset Valuation Method is 12.33%.*
[6] *Actuarially Required Contribution Rate prior to change in Asset Valuation Method is 14.16%.*

Glossary

Actuarial Asset Value. The value of assets used in calculating the required contributions. The actuarial asset value may be equal to the fair market value of assets, or it may spread the recognition of certain investment gains or losses over a period of years in accordance with an asset valuation method. The goal of an asset valuation method is to produce a relatively stable asset value thereby reducing year-to-year volatility in contribution requirements.

Actuarial Cost Method. Sometimes called "funding method," a particular technique used by actuaries to establish the amount and incidence of the annual actuarial cost of pension plan benefits, or normal cost, and the related unfunded actuarial accrued liability. Ordinarily, the annual contribution to the plan comprises the normal cost and an amount for amortization of the unfunded actuarial accrued liability.

Annual Pension Cost. A measure of the periodic cost of an employer's participation in a defined benefit pension plan.

Annual Required Contributions (ARC). The employer's periodic required contributions to a defined benefit pension plan, calculated in accordance with the parameters of GASB 25 (as amended by GASB 50) or GASB 27.

ASA. Associate of the Society of Actuaries.

Current Benefit Obligations. The present value of benefits earned to the valuation date, based on current service and including future salary increases to retirement.

EA. Enrolled Actuary.

FSA. Fellow of the Society of Actuaries.

MAAA. Member of the American Academy of Actuaries.

Normal Cost. The annual cost assigned to the current year, under the actuarial cost method in use.

Present Value. Sometimes called "actuarial present value," the current worth (on the valuation date) of an amount or series of amounts payable or receivable in the future. The present value is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Statement No. 25 of the Governmental Accounting Standards Board (GASB 25). The accounting standard governing the financial reporting for defined benefit pension plans and note disclosures for defined contribution plans.

Statement No. 27 of the Governmental Accounting Standards Board (GASB 27). The accounting standard governing a state or local governmental employer's accounting for pensions.

Statement No. 50 of the Governmental Accounting Standards Board (GASB 50). The accounting standard amending both GASB 25 and GASB 27 to require a schedule of funding progress under the Entry Age Normal method for plans that use the aggregate funding method to determine the Annual Required Contribution.

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