December 2008

Elective State Officers Retirement Fund

Actuarial Valuation Report as of July 1, 2008

MERCER

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Contents

Highlights

This report has been prepared by Mercer for the Minnesota State Retirement System to:

- Present the results of a valuation of the Elective State Officers Retirement Fund as of July 1, 2008.
- Review experience under the Plan for the year ended June 30, 2008.
- 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.

	Plan Year Ending	
Contributions	**June 30, 2009**	**June 30, 2008***
Statutory Contributions – Chapter 352C	$ 0	$ 0
Required Contributions – Chapter 356	557,643	506,141
Sufficiency / (Deficiency)	(557,643)	(506,141)

Without a change in contribution rates, or favorable actuarial experience, the funded status will continue to deteriorate. In addition, as of the date of this report, the assets have experienced significant losses as a result of the turmoil in the financial marketplace this fall. If not reversed, losses will further increase the deficiency.

On the other hand, we would also note that absent any additional losses, the plan has sufficient assets to pay benefits for many years into the future.

The "Plan Assets" section provides detail on the plan assets used for the valuation including a development of the actuarial value of assets. The plan assets earned (2.1%) for the plan year ending June 30, 2008 as compared to the assumed rate of 8.5%.

Participant reconciliation and statistics are detailed in the "Membership 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 50).

There were no changes in valuation methods, actuarial assumptions, or plan provisions since the July 1, 2007 valuation.

* *Provided by The Segal Company.*

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, 2008	**July 1, 2007***
Contributions		
Statutory – Chapter 352C	$ 0	$ 0
Required – Chapter 356	557,643	506,141
Sufficiency / (Deficiency)	(557,643)	(506,141)
Funding Ratios		
Accrued Benefit Funding Ratio		
– Current assets (AVA)	$ 212,336	$ 211,540
– Current benefit obligations	3,907,991	3,969,250
– Funding ratio	5.43%	5.33%
Accrued Liability Funding Ratio		
– Current assets (AVA)	$ 212,336	$ 211,540
– Actuarial accrued liability	3,907,991	3,969,250
– Funding ratio	5.43%	5.33%
Projected Benefit Funding Ratio		
– Current and expected future assets	$ 212,336	$ 211,540
– Current and expected future benefit obligations	3,907,991	3,969,250
– Funding ratio	5.43%	5.33%
Participant Data		
Active members	0	0
Service retirements	11	11
Survivors	4	4
Disability retirements	0	0
Deferred retirements	1	1
Terminated other non-vested	0	0
Total	**16**	**16**

** Provided by The Segal Company.*

Certification

We have prepared an actuarial valuation of the Elective State Officers Retirement Fund as of July 1, 2008 for the plan year ending June 30, 2009. This report reflects the provisions of the Plan effective July 1, 2008. To the best of our knowledge, this actuarial valuation was performed in accordance with the requirements of Minnesota Statutes, Section 356.215, and the requirements of the Standards for Actuarial Work established by the Minnesota Legislative Commission on Pension and Retirement.

This report has been prepared exclusively for the Minnesota State Retirement System and the Legislative Commission on Pensions and Retirement to determine the annual required contribution and present accounting results required under GASB Nos. 25 (as amended by GASB 50) and 27. Mercer is not responsible for consequences arising from the use of any elements of this report for any other than their intended purpose. Determinations for other purposes may be significantly different from the results shown in this report.

A valuation report is a snapshot of a plan's estimated financial condition at a particular point in time; it is neither a prediction of a pension plan's future financial condition nor a prediction of a pension plan's 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 it pays, the number of people to whom it pays them, and the amount earned on any assets invested to pay the benefits. These amounts and others 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 within, are used to select a single scenario from the 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 valuation to valuation based on experience, changes in expectations about the future, and other factors.

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

We used and relied on financial data submitted by the Fund without further audit. We have also used and relied on participant data supplied by the Fund; this data would customarily not be verified by the Fund's actuary. We have reviewed the participant data for internal consistency and have no reason to doubt its substantial accuracy. The Fund is solely responsible for the validity and completeness of this information.

Contributions

All costs, liabilities and other factors for the Fund were determined in accordance with generally accepted actuarial principles and procedures, in accordance with the provisions of current federal and state statutes and regulations issued thereunder. The economic assumptions are set in Minnesota Statutes, and the remaining assumptions are adopted by the Legislative Commission on Pensions and Retirement. This report fully discloses the actuarial position of this plan on this mandated basis. Note that other assumptions may be more appropriate for GASB disclosures.

Certification

Professional Qualifications

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate. The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. 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.

Stephen T. McElhaney
12/5/2008

Stephen T. McElhaney, FSA, EA, MAAA
Principal
Date

Bonita J. Wurst
12/5/2008

Bonita J. Wurst, ASA, EA, MAAA
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Date

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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 Minnesota State Retirement System and the Minnesota State Board of Investments. The 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, 2008

		Market Value
Assets in Trust		
▪ Cash, equivalents, short term securities	$	0
▪ Fixed income		0
▪ Equity		0
▪ Real Estate		0
▪ Equity in MPRIF		0
▪ Invested securities lending collateral		0
▪ Other		213,165
Total assets in trust	**$**	**213,165**
Assets Receivable		0
Total Assets	**$**	**213,165**
Amounts Payable	$	(829)
Net Assets	**$**	**212,336**
Net assets held in trust for pension benefits		
▪ Member reserves	$	35,563
▪ Other non-MPRIF reserves		176,773
Total assets available for benefits	**$**	**212,336**

Plan Assets

Reconciliation of Plan Assets

The following exhibit shows the revenue, expenses and resulting assets of the Fund as reported by the Minnesota State Board of Investment, for the Plan's Fiscal Year July 1, 2007 to June 30, 2008.

Change in Assets	Non-MPRIF Assets	MPRIF Reserve	Market Value
1. Fund balance at market value at July 1, 2007	$ 211,540	$ 0	$ 211,540
2. Contributions			
a. Member	0	0	0
b. Employer	434,894	0	434,894
c. Other sources	0	0	0
d. Total contributions	$ 434,894	$ 0	$ 434,894
3. Investment income			
a. Investment income	$ 0	$ 0	$ 0
b. Investment expenses	0	0	0
c. Net subtotal	$ 0	$ 0	$ 0
4. Other	0	0	0
5. Total income *(2.d. + 3.c. + 4.)*	**$ 434,894**	**$ 0**	**$ 434,894**
6. Benefits paid			
a. Annuity benefits	$ (429,690)	$ 0	$ (429,690)
b. Refunds	0	0	0
c. Total benefits paid	$ (429,690)	$ 0	$ (429,690)
7. Expenses			
a. Other	$ 0	$ 0	$ 0
b. Administrative	(4,408)	0	(4,408)
c. Total expenses	$ (4,408)	$ 0	$ (4,408)
8. Total disbursements *(6.c. + 7.c.)*	**$ (434,098)**	**$ 0**	**$ (434,098)**
9. Other changes in reserves			
a. Annuities awarded	$ 0	$ 0	$ 0
b. MPRIF mortality gain (loss)	0	0	0
c. Change in assumptions	0	0	0
d. Total other changes	$ 0	$ 0	$ 0
10. Fund balance at market value at June 30, 2008 *(1 + 5. + 8. + 9.d.)*	**$ 212,336**	**$ 0**	**$ 212,336**

Plan Assets

Actuarial Asset Value

Actuarial Asset Value is equal to Market Value.

Membership Data

Distribution of Service Retirements

	Years Retired as of June 30, 2008							
Age	**<1**	**1 – 4**	**5 – 9**	**10 – 14**	**15 – 19**	**20 – 24**	**25+**	**Total**
<45								
45 – 49								
Avg. Benefit								
50 – 54								
Avg. Benefit								
55 — 59								
Avg. Benefit								
60 – 64								
Avg. Benefit								
65 – 69		2	1					**3**
Avg. Benefit		8,859	49,936					**22,551**
70 – 74			2					**2**
Avg. Benefit			70,421					**70,421**
75 – 79			1	2	3			**6**
Avg. Benefit			32,396	10,334	27,587			**22,638**
80 – 84								
Avg. Benefit								
85 – 89								
Avg. Benefit								
90+								
Avg. Benefit								
Total		**2**	**4**	**2**	**3**			**11**
Avg. Benefit		**8,859**	**55,793**	**10,334**	**27,587**			**31,302**

Membership Data

Distribution of Survivors

	Years Since Retirement as of June 30, 2008							
Age	**<1**	**1 – 4**	**5 – 9**	**10 – 14**	**15 – 19**	**20 – 24**	**25+**	**Total**
<45								
45 – 49								
Avg. Benefit								
50 – 54								
Avg. Benefit								
55 – 59								
Avg. Benefit								
60 – 64								
Avg. Benefit								
65 – 69					1			**1**
Avg. Benefit					8,461			**8,461**
70 – 74								
Avg. Benefit								
75 – 79				1				**1**
Avg. Benefit				48,763				**48,763**
80 – 84								
Avg. Benefit								
85 – 89								
Avg. Benefit								
90+				1			1	**2**
Avg. Benefit				22,843			10,605	**16,724**
Total				**2**	**1**		**1**	**4**
Avg. Benefit				**35,803**	**8,461**		**10,605**	**22,668**

Membership Data

Reconciliation of Members*

		Terminated		Recipients			
	Actives	Deferred Retirement	Other Non-vested	Service Retirements	Disability Retirements	Survivors	Total
Members on 7/1/2007	**0**	**1**	**0**	**11**	**0**	**4**	**16**
New entrants	0	0	0	0	0	0	0
Return to active	0	0	0	0	0	0	0
Terminated non-vested	0	0	0	0	0	0	0
Service retirements	0	0	0	0	0	0	0
Terminated deferred	0	0	0	0	0	0	0
Terminated refund	0	0	0	0	0	0	0
Deaths	0	0	0	0	0	0	0
New beneficiary	0	0	0	0	0	0	0
Disabled	0	0	0	0	0	0	0
Benefits expired	0	0	0	0	0	0	0
Data correction	0	0	0	0	0	0	0
Net change	0	0	0	0	0	0	0
Members on 6/30/2008	**0**	**1**	**0**	**11**	**0**	**4**	**16**

* *Provided by Minnesota State Retirement System and checked for reasonableness.*

Development of Costs

Actuarial Valuation Balance Sheet

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, 2008
A. Actuarial Value of Assets			$ 212,336
B. Expected future assets			
1. Present value of expected future statutory supplemental contributions			$ 0
2. Present value of future normal cost contributions			0
3. Total present value of future contributions *(1. + 2.)*			$ 0
C. Total current and expected future assets *(A. + B.3..)*			$ 212,336
	Non-Vested	Vested	Total
D. Current benefit obligations			
1. Benefit recipients			
a. Service retirements	$ 0	$ 2,994,003	$ 2,994,003
b. Disability	0	0	0
c. Survivors	0	610,755	610,755
2. Deferred retirements with augmentation	0	303,233	303,233
3. Former members without vested rights	0	0	0
4. Active Members	0	0	0
5. Total Current Benefit Obligations	$ 0	$ 3,907,991	$ 3,907,991
E. Expected Future Benefit Obligations			$ 0
F. Total Current and Expected Future Benefit Obligations			$ 3,907,991
G. Unfunded Current Benefit Obligations *(D.5. − A.)*			$ 3,695,655
H. Unfunded Current and Future Benefit Obligations *(F. − C.)*			$ 3,695,655

Development of Costs

Determination of Unfunded Actuarial Accrued Liability and Supplemental Contribution Rate

	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	$ 0	$ 0	$ 0
2. Deferred retirements with future augmentation	303,233	0	303,233
3. Former members without vested rights	0	0	0
4. Annuitants in MPRIF	0	0	0
5. Recipients not in MPRIF	3,604,758	0	3,604,758
6. Total	$ 3,907,991	$ 0	$ 3,907,991
B. Determination of Unfunded Actuarial Accrued Liability (UAAL)			
1. Actuarial accrued liability			$ 3,907,991
2. Current assets (AVA)			212,336
3. Unfunded actuarial accrued liability			$ 3,695,655
C. Determination of Supplemental Contribution Rate			
1. Current unfunded actuarial accrued liability to be amortized by July 1, 2017			$ 3,695,655
2. Supplemental contribution amount			$ 556,643

Development of Costs

Changes in Unfunded Actuarial Accrued Liability (UAAL)

		Year Ending June 30, 2008
A. Unfunded actuarial accrued liability at beginning of year	$	3,757,710
B. Changes due to interest requirements and current rate of funding		
1. Normal cost and actual administrative expenses	$	4,408
2. Contributions		(434,894)
3. Interest on A., B.1. and B.2.		301,110
4. Total *(B.1. + B.2. + B.3.)*	$	(129,376)
C. Expected unfunded actuarial accrued liability at end of year *(A. + B.4.)*	$	3,628,334
D. Increase (decrease) due to actuarial losses (gains) because of experience deviations from expected		
1. Salary increases	$	0
2. Investment return		22,610
3. MPRIF Mortality		0
4. Mortality of other benefit recipients		104,248
5. Other items		(59,537)
6. Total	$	67,321
E. Unfunded actuarial accrued liability at end of year before plan amendments and changes in actuarial assumptions *(C. + D.6.)*	$	3,695,655
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. Unfunded actuarial accrued liability at end of year *(E. + F. + G.)*	$	3,695,655

Development of Costs

Determination of Contribution Sufficiency/(Deficiency)*

		Dollar Amount
A. Statutory contributions – Chapter 352C		
1. Employee contributions	$	0
2. Employer contributions		0
3. Total	$	0
B. Required contributions – Chapter 356		
1. Normal cost	$	0
2. Supplemental contribution amortization by July 1, 2017 of Unfunded Actuarial Accrued Liability	$	556,643
3. Allowance for expenses	$	1,000
4. Total	$	557,643
C. Contribution Sufficiency/(Deficiency) *(A.3. – B.4.)*	$	(557,643)

*Plan is funded by annual appropriations from the General Fund. Estimated benefit payments of $435,000 are expected to be paid during the upcoming fiscal year.

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 participants' 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 retirement termination, disability or death.

At the time the funding method is introduced, there will be a liability which represents the contributions which would have been accumulated if this method of funding had always been used. The difference between this liability and the assets (if any) which are held in the fund is the unfunded liability which is typically funded over a chosen period in accordance with the amortization schedule.

A detailed description of the calculation follows:

The normal costs for each active participant under the assumed retirement age is determined by applying to 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 participants' 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 participants, 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 cost.
- 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 Valuation Method

Non-MPRIF Assets and MPRIF Reserve: Market Value

Payment on the Unfunded Actuarial Accrued Liability

A level dollar amount each year to the statutory amortization date of July 1, 2017. If there is a negative Unfunded Actuarial Accrued Liability, the surplus amount shall be amortized over 30 years.

Actuarial Basis

Summary of Actuarial Assumptions

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

Investment return:	6.0% compounded annually post-retirement. 8.5% compounded annually pre-retirement.
Benefit increases after retirement	Payment of post retirement benefit increases accounted for by using a 6.00% post-retirement assumption. For those not yet in pay status, a 5.00% post-retirement interest rate is used to account for the one-time adjustment applicable at retirement.
Mortality	
Healthy Pre-retirement	1983 Group Annuity Mortality for males set back four years. 1983 Group Annuity Mortality for females set back two years.
Healthy Post-retirement	1983 Group Annuity Mortality for males. 1983 Group Annuity Mortality for females.
Disabled	Male: N/A Female: N/A
Retirement	Age 62 or if over age 62, one year from valuation date.
Allowances for combined service annuity	Liabilities for former members are increased by 30% to account for the effect of some participants having eligibility for a Combined Service Annuity.
Administrative expenses	$1,000 per year.
Refund of contributions	All employees withdrawing after eight years of service were assumed to leave their contributions on deposit and receive a deferred annuitant benefit.
Percentage married	85.00% of members are assumed to be married.
Age of spouse	Females are assumed to be three years younger than males.
Eligible children	Members are assumed to have two dependent children depending upon member's age. Assumed first child born at member's age 28 and second child is born at member's age 31.
Changes in actuarial assumptions	There have been no changes in the actuarial assumptions or actuarial cost methods since the prior valuation.

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	Employment as a "Constitutional Officer" as elected prior to July 1, 1997 and who elect to retain coverage under this plan (i.e., do not elect Social Security coverage). Plan is closed to new members.
Contributions	Plan is funded by annual appropriations from the General Fund.
Allowable service	Service while in an eligible position.
Salary	Salary upon which Elective State Officers Retirement Fund contributions have been made.
Average salary	Average of the five highest consecutive years of salary.
Retirement	
Normal retirement benefit	
Age/service requirements	Age 62 and eight years of Allowable Service.
Amount	2.50% of Average Salary for each year of Allowable Service. For members who were employed as of June 30, 1997 and are still employed on July 1, 1997, an actuarial increase shall be made for the change in the post-retirement interest rates from 5.00% to 6.00%.
Early retirement benefit	
Age/Service requirements	Age 60 and either eight years of Allowable Service.
Form of payment	Normal retirement benefit based on Allowable Service and Average Salary at retirement date with reduction of 0.50% for each month the member is under age 62 at the time of retirement.
Form of payment	Life annuity.
Benefit increases	Adjusted by MSRS to provide same increase as MPRIF.
Disability	None.

Actuarial Basis

Summary of Plan Provisions *(continued)*

Death	
<u>*Surviving spouse benefit*</u>	
Age/service requirement	Death while active, or after retirement or with at least eight years of Allowable Service.
Amount	Survivor payments of 50% of the retirement benefit of the member assuming the member had attained age 62 and had a minimum of eight years of Allowable Service. A former member's benefit is augmented as a Deferred Annuity to date of death before determining the portion payable to the spouse. If a member becomes deceased prior to July 1, 1997 and the beneficiary was not eligible to commence their survivor benefit as of July 1, 1997, an actuarial increase shall be made for the change in the post-retirement interest rates from 5.00% to 6.00%.
Benefit increases	Adjusted by MSRS to provide same increase as MPRIF.
<u>*Surviving dependent children's benefit*</u>	
Age/service requirement	Same as spouse's benefit.
Amount	Benefit for first child is 25.00% of the retirement benefit (computed as for surviving spouse) with 12.50% for each additional child. Maximum payable (including spouse) is 100.00% of the retirement benefit. Benefits cease when a child marries or attains age 18 (22 if a full-time student). If a member becomes deceased prior to July 1, 1997 and the beneficiary was not eligible to commence their survivor benefit as of July 1, 1997, an actuarial increase shall be made for the change in the post-retirement interest rates from 5.00% to 6.00%.
Benefit increases	Adjusted by MSRS to provide same increase as MPRIF.
Termination	
<u>*Refund of contributions*</u>	
Age/service requirement	Termination of service.
Amount	Member's contributions with 5.00% interest compounded annually if termination occurred before May 16, 1989 and 6.00% interest compounded annually if termination occurred on or after May 16, 1989. A deferred annuity may be elected in lieu of a refund.
<u>*Deferred benefit*</u>	
Age/service requirement	Eight years of allowable service.

Actuarial Basis

Summary of Plan Provisions *(continued)*

***Termination** (continued)*	
<u>*Deferred benefit*</u>	
Amount	Benefit computed under law in effect at termination and increased by the following annual percentage: (a) 0.00% before July 1, 1979; (b) 5.00% from July 1, 1979 to January 1, 1981; (c) 3.00% until age 55; and (d) 5.00% thereafter until the annuity begins. Amount is payable as a normal or early retirement. If a member terminated prior to July 1, 1997 but were not eligible to commence their pensions before July 1, 1997, the actuarial increase shall be made for the change in the post-retirement interest rates from 5.00% to 6.00%.
Changes in plan provisions	<u>Revised Minnesota Post Retirement Investment Fund Benefit Increase</u> The inflation-based benefit increase provided by the Minnesota Post Retirement Investment Fund (Post Fund) to benefit recipients is equal to 100 percent of CPI-W, but not to exceed 2.5 percent. An additional benefit increase may be provided to any individuals who have lost purchasing power compared to the value of the benefit they initially received when their benefit first commenced. This additional benefit increase can only be paid if the Post Fund composite funding ratio is at least 90 percent, if the rate of return earned on Post Fund assets exceeds 8.5 percent for the year, and if the inflation rate certified for the year is less than 2.5 percent. If the Post Fund has a funding ratio of 100 percent or more, an additional inflation component will be paid when CPI-W inflation exceeds 2.5 percent. An overall cap of 5.0 percent annually on benefit recipient adjustments is effective June 30, 2010. <u>Potential Dissolution of Minnesota Post Fund</u> If the Post Fund composite funding ratio is less than 80 percent in any one year, or less than 85 percent in two consecutive years, the Post Fund must be dissolved, and assets will be transferred back to the applicable plan and be merged with the active member assets for that plan. If the Post Fund is dissolved, not withstanding any other law, the benefit recipients will receive an annual 2.5 percent increase in lieu of any other benefit increase.

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[1]

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)
07/01/1991	$ 308,000	$ 2,249,000	$ 1,941,000	13.69%	$ 422,000	459.95%
07/01/1992	334,000	2,380,000	2,046,000	14.03%	378,000	541.27%
07/01/1993	322,000	2,689,000	2,367,000	11.97%	500,000	473.40%
07/01/1994	361,000	2,848,000	2,487,000	12.68%	411,000	605.11%
07/01/1995	378,000	2,948,000	2,570,000	12.82%	422,000	609.00%
07/01/1996	412,000	2,983,000	2,571,000	13.81%	456,000	563.82%
07/01/1997	456,000	3,214,000	2,758,000	14.19%	467,000	590.58%
07/01/1998	500,000	3,369,000	2,869,000	14.84%	461,000	622.34%
07/01/1999	198,000	3,373,000	3,175,000	5.87%	291,000	1,091.07%
07/01/2000	199,000	3,535,000	3,336,000	5.63%	0	N/A
07/01/2001	201,000	3,775,000	3,574,000	5.32%	0	N/A
07/01/2002	201,000	4,075,000	3,874,000	4.93%	0	N/A
07/01/2003[2]	--	--	--	--	--	--
07/01/2004	203,566	4,001,787	3,798,221	5.09%	0	N/A
07/01/2005	204,297	4,065,308	3,861,011	5.03%	0	N/A
07/01/2006	207,099	3,969,766	3,762,667	5.22%	0	N/A
07/01/2007	211,540	3,969,250	3,757,710	5.33%	0	N/A
07/01/2008	212,336	3,907,991	3,695,655	5.43%	0	N/A

[1] *Information prior to 2008 provided by The Segal Company.*
[2] *An actuarial valuation was not completed as of July 1, 2003.*

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

Schedule of Contributions from the Employer and Other Contributing Entities[1]

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[2] (a)	Actual Covered Payroll (b)	Actual Member Contributions (c)	Annual Required Contributions[3] [(a)x(b)] – (c) = (d)	Actual Employer Contributions[4] (e)	Percentage Contributed (e) / (d)
1991	34.84%	$ 422,000	$ 38,000	$ 109,000	$ 40,000	36.70%
1992	33.28%	378,000	34,000	92,000	111,000	120.65%
1993	36.23%	500,000	45,000	136,000	88,000	64.71%
1994	38.64%	411,000	37,000	122,000	164,000	134.43%
1995	42.00%	422,000	38,000	139,000	165,000	118.71%
1996	43.58%	456,000	41,000	158,000	151,000	95.57%
1997	43.49%	467,000	42,000	161,000	167,000	103.73%
1998	51.07%	461,000	42,000	193,000	175,000	90.67%
1999	51.66%	291,000	26,000	124,000	40,000	32.26%
2000	$ 321,000	0	0	321,000	306,000	95.33%
2001	340,000	0	0	340,000	330,000	97.06%
2002	371,000	0	0	371,000	354,000	95.42%
2003[5]	412,000	0	0	412,000	371,000	90.12%
2004[6]	412,000	0	0	412,000	382,679	92.88%
2005	436,594	0	0	436,594	394,561	90.37%
2006	464,671	0	0	464,671	416,638	89.66%
2007	477,221	0	0	477,221	427,468	89.57%
2008	506,141	0	0	506,141	434,894	85.92%
2009	557,643					

[1] *Information prior to 2008 provided by The Segal Company.*
[2] *Shown as a percent of payroll for years before 2000.*
[3] *For years after 1999, the annual required contribution is the dollar amount shown in (a).*
[4] *Includes contributions from other sources (if applicable).*
[5] *Actuarially Required Contribution Rate prior to change in Actuarial Assumptions is $389,000.*
[6] *Actuarially Required Contribution Rate is equal to prior year's rate since an actuarial valuation was not completed as of July 1, 2003.*

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.

FSA. Fellow of the Society 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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