

**CITY OF PLYMOUTH  
AGENDA  
SPECIAL COUNCIL MEETING  
JANUARY 22, 2013, 5:30 P.M.  
MEDICINE LAKE CONFERENCE ROOM**

**1. CALL TO ORDER**

**2. TOPICS**

A. Request of Fire Relief Association for pension increase

**3. ADJOURN**

**REGULAR  
COUNCIL MEETING**

**January 22, 2013**

**To:** Laurie Ahrens, City Manager

**Prepared by:** Dave Callister, Administrative Services Director  
Givonna Kone, HR Manager

**Reviewed by:** Laurie Ahrens, City Manager

**Item:** **Review Plymouth Firefighters Relief Association  
request for pension benefit increase**

**1. ACTION REQUESTED:**

Consider the request by the Plymouth Firefighters Relief Association (PFRA) to increase firefighter pension benefits.

**2. BACKGROUND:**

In addition to pension benefits, all firefighters receive compensation for attending training and fire calls. The hourly rate ranges from \$11.19 to \$13.73 for firefighters and up to \$19.73 for officers.

In June 2012, the PFRA adopted a resolution requesting that the City Council consider an increase in pension benefits for its members, effective January 1, 2013. The request is to increase the annual defined benefit from \$7,500 to \$8,300 per firefighter per year of service, an increase of 10.7%.

Currently, for every year of service, Plymouth firefighters receive \$7,500 towards their pension. After 10 years, firefighters are partially vested and at retirement are eligible to receive 60% of the total amount in a lump sum payment as long as they are 50 years of age or older. The pension vesting level increases from 60% at ten years to fully vested at 100% for 20 years of service or more.

For example, a firefighter with 20 years of service currently receives a lump sum payout at retirement of \$150,000. The PFRA's proposal would increase the lump sum retirement for 20 years of service to \$166,000.

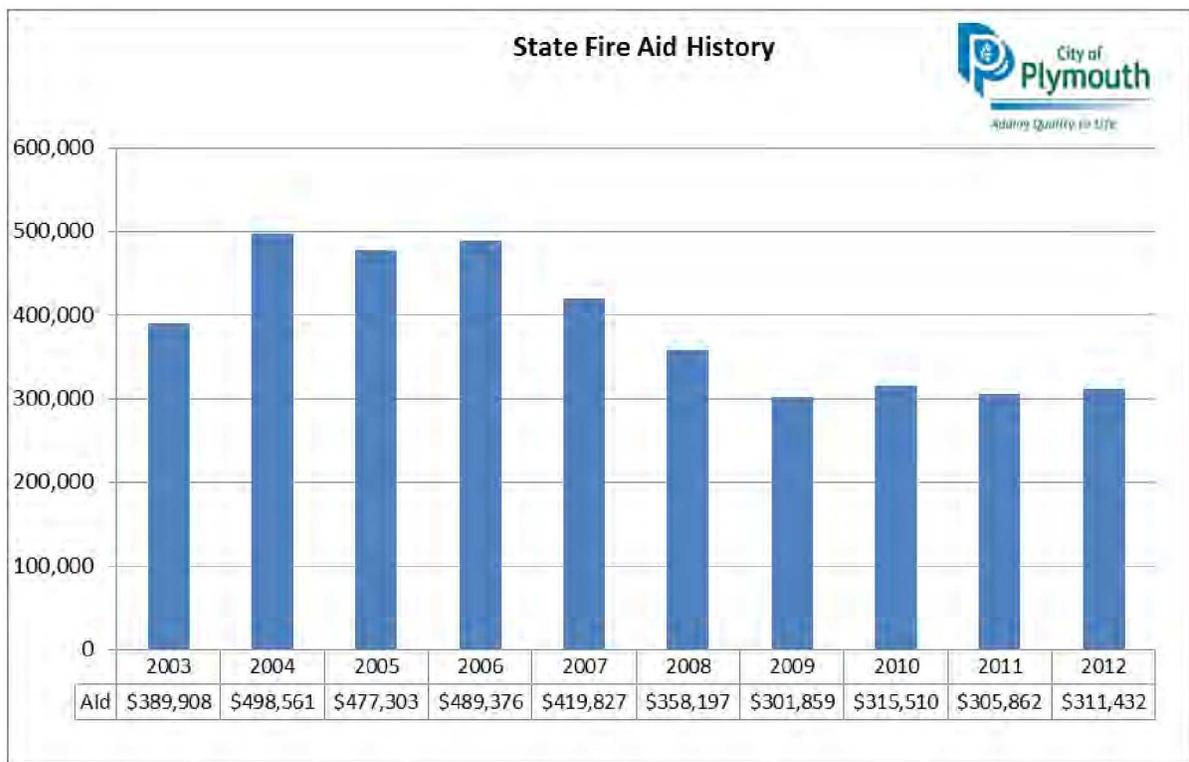
**History of pension increases**

1994 – \$3,500 per year of service  
1995 – \$3,750 per year of service  
1996 – \$4,000 per year of service  
1998 – \$5,500 per year of service  
2002 – \$6,000 per year of service  
2003 – \$6,500 per year of service  
2004 – \$7,000 per year of service  
2007 – \$7,500 per year of service

## FUNDING

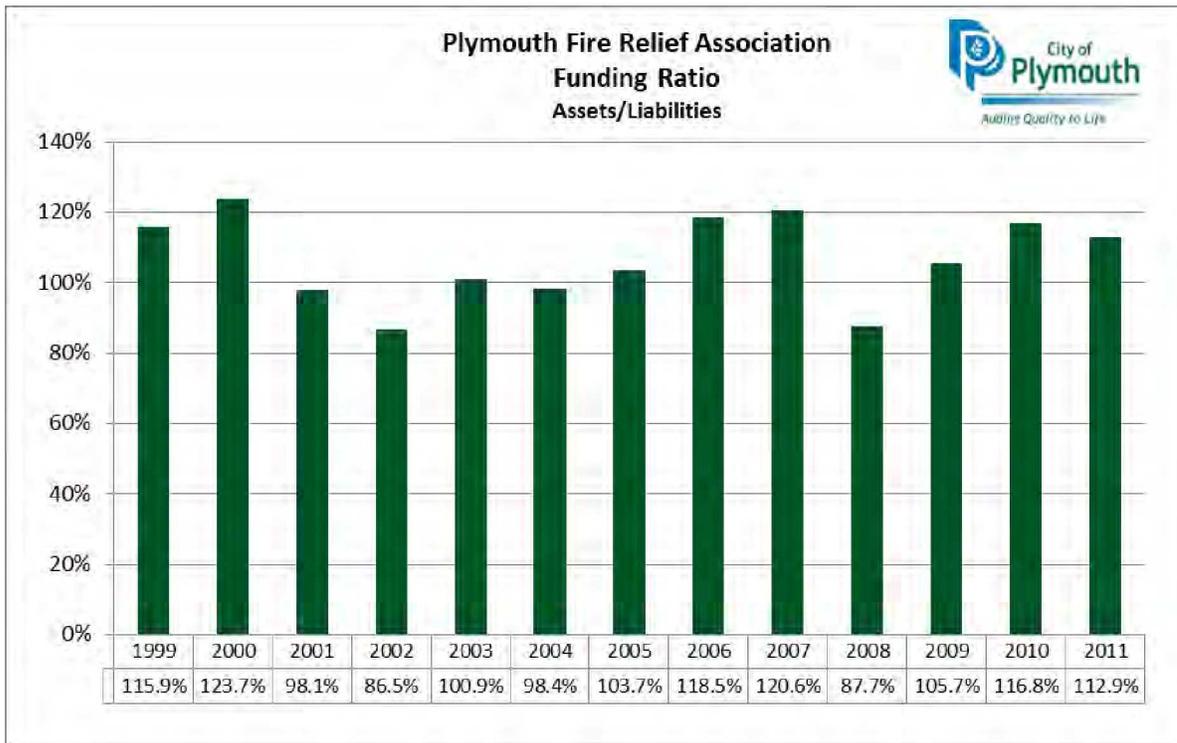
Currently, firefighter pensions are funded entirely through annual state fire aid and investment earnings. There is no city contribution or tax levy used to fund the pensions. The state fire aid consists of a two percent fire insurance premium tax on all fire, lightning, sprinkler leakage and extended coverage premiums. The aid is distributed to Plymouth based on population and property value within the city. The recent funding history shows a high of \$498,561 received in 2004 with a low of \$301,510 received in 2009. As is the case with all state funding sources, the annual aid amount fluctuates and is always subject to legislative tinkering. The State Auditor has been working in the past for legislative changes and there has been increased discussion regarding formula changes or redistribution of state aid funds. To this extent, the future of state fire aid is uncertain.

Most local fire relief pension plans are not sustainable solely from the two percent fire aid and require an annual property tax levy.



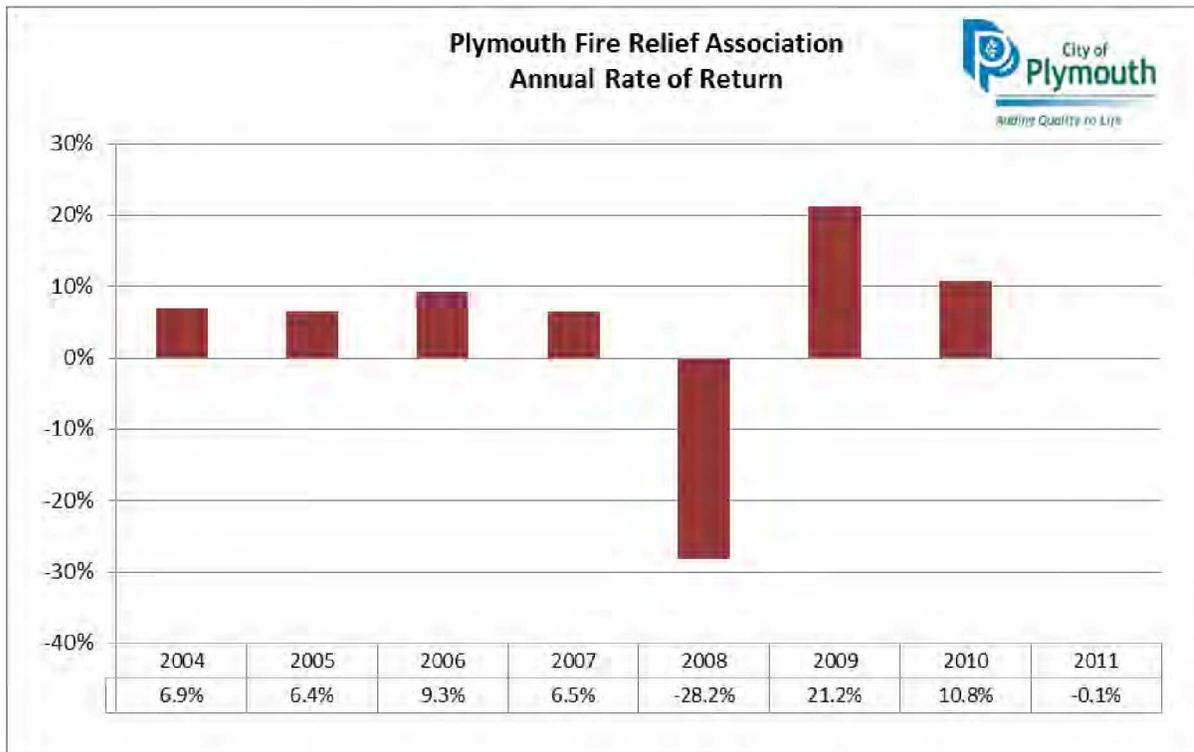
## Funding Ratios

Funding ratios are an important measure in assessing the financial health of a pension fund. Funding ratios show the relationship between a relief association's assets and liabilities. The chart below illustrates the funding ratio for the Plymouth Fire Relief Association's Special Fund. Historically, the funding percentage fluctuates from year to year. In the last 13 years, the funding ratio has been as high as 124% and as low as 87%.



### Rate of Return on Pension Fund Investments

The PFRA annual management letter compares the rate of return on investments to an average of 60 fire relief associations in Minnesota. The comparison reflects that on average, the rate of return for the PFRA over the last seven years has outperformed the group average rate of return (4.7% to 3.9%).



## Market Comparisons

As with any request for pay and benefit increases, we have completed a market survey that compares eight similar sized fire departments in the metropolitan area.

	Training & Per Call Hourly	Equivalent Pay *	Annual Pension	2012 Annual Compensation
Plymouth	\$13.73	\$5,698	\$7,500	\$13,198
Average **	\$12.68	\$4,844	\$6,618	\$11,462
Variance	\$1.05	\$854	\$882	\$1,736

\* Equivalent Pay is based on an average of 415 hours for training and calls per firefighter for 2011.

\*\* Average includes similar cities with Paid On Call Firefighters only, including Apple Valley, Blaine Eagan, Eden Prairie, Lakeville, Maple Grove, Minnetonka and Woodbury.

In 2011, Plymouth Paid On Call (POC) firefighters worked an average of 415 hours per year. Hours of work for individual firefighters ranged from a low of 136 to a high of 1,222 per year, an average of 11 to 102 hours per month.

The current pension system for firefighters in Minnesota is calculated so that all firefighters receive the same pension benefit, regardless of how many hours worked. In addition, any increases in the lump sum pension amounts are retroactive, meaning that a firefighter with 30 years of service would receive the additional \$800 per year of service or \$24,000 in additional pension benefits at retirement. Under the current system, the city could not approve a pension increase that would only apply to years served in 2013 and beyond, although, on the surface this would seem to make sense as it limits past pension liabilities and rewards firefighters going forward. Currently, Minnesota Statutes do not allow for a two tiered system that would increase the pension benefit prospectively for all future years. Instead, all service pensions must be applied uniformly for all years of active service both retroactively and prospectively.

The financial impact of an \$800 per year of service pension increase would be \$67,200 in increased liability each year going forward (assuming 71 active firefighters, and 13 deferred vested members). In total, based on the retroactive provision, the proposed benefit increase would add approximately \$500,000 in liabilities for the plan.

If state fire aid remains the same or decreases, and if pension benefits increase, the long term sustainability of the pension plan could be affected. The result of this would be that the city would have to add a property tax levy to meet the needs of the plan. In past practice, the city has funded the pension fund with only state fire aid and investments earnings.

## Pension Amounts

As per the most recent Report of Volunteer Fire Relief Associations by the Office of the State Auditor (OSA), the maximum lump-sum benefit level allowed under state law is \$10,000 per year of service. The average lump sum for monthly/lump-sum combination plans in 2010 was \$4,725. The average lump sum for metro area relief associations was \$3,734. Plymouth is one of five cities that have a current retirement benefit of \$7,500 per year of service with the others being Brooklyn Center, Northfield, Robbinsdale and Shakopee. Other pension amounts are as follows:

Metro Cities over 40,000 in population		Surrounding Cities (10 mile radius)	
Apple Valley	\$6,300	Brooklyn Center	\$7,500
Eagan	\$6,500	Dayton	\$1,500
Eden Prairie	\$5,600	Golden Valley	\$6,700
Lakeville	\$6,230	Hamel	\$2,300
Maple Grove	\$6,500	Hopkins	\$5,300
Minnetonka	\$6,910	Loretto	\$4,200
Woodbury	\$6,720	Excelsior	\$6,250
Brooklyn Park	Defined Contribution	Maple Plain	\$2,100
Edina	Defined Contribution	Robbinsdale	\$7,500
		Rogers	\$2,600
		West Metro	Defined Contribution
		Wayzata	Defined Contribution

In 2009 and 2010 most cities appear to have kept pension levels relatively flat. According to the OSA report, in 2009 and 2010, there were 31 and 11 relief associations, respectively, in Minnesota that decreased their benefits, including the Hopkins Fire Relief Association whose benefit levels were reduced from \$7,000 to \$5,300 per year of service due to the city placing a cap on its municipal contribution.

### Defined Benefit Plan versus Defined Contribution Plan

The current PFRA plan is a defined benefit plan in which all eligible firefighters receive a fixed lump-sum amount. At retirement (minimum age of 50) and assuming a minimum vesting level of 10 years, the firefighter receives a lump-sum payment which then can be directed by the firefighter into a personal retirement account or cashed out.

A defined contribution plan requires that an account be set up for each individual firefighter. Contributions are made to this account by the firefighter, the employer or both. Along with the contributions, the final amount of funds in the account at retirement is influenced by the firefighter decisions on how the money is invested. In addition, there is no vesting period so a firefighter benefits from retirement funds from day one versus the 10 year vesting currently in place.

Current national trends are showing that many entities are changing from defined benefit plans to defined contribution plans.

With this in mind, cities are considering or implementing new models. In 2009, the City of Minnetonka implemented a new pension model (defined contribution plan) that supplements its existing defined benefit plan. The defined contribution plan is for duty crews only. The City mandates that for duty crew members only, \$2.00 per hour is set aside towards the ICMA deferred compensation plan. The more a firefighter works, the more that is set aside tax deferred for their retirement plan. The investments in the deferred compensation plan are self-directed by each firefighter. We would like to consider an alternative plan that rewards those firefighters who work more hours instead of the current model where every firefighter receives the same benefit regardless of the hours dedicated to the department.

We have met with PFRA officials on several occasions and expressed our interest in exploring alternative pension options that would meet the following goals:

- Tie retirement benefits to actual hours worked
- Reduce the uncertain long-term liability for the city
- Maintain the goal of recruitment and retention
- Allow for full immediate vesting for all firefighters
- Allow full portability of assets for firefighters should they leave employment with the city
- Cede investment control to individual firefighters

A new supplemental defined contribution plan may cost more now but allows for more predictability and is more sustainable in the long-term. The current plan, while fully funded and well managed, may not be sustainable in the long term without significant future tax levy implications. We suggest that alternative options be explored to supplement the current plan that are based more on hours worked and less on years of service. Up to this point, the PFRA have indicated they are not interested in this option.

### **3. BUDGET IMPACT:**

Currently, the Pension Fund is funded entirely through annual state fire aid and investment earnings and no city property tax levy is needed. However, if the state fire aid is reduced or eliminated or if investment earnings are not sufficient as benefits increase, the City is required by statute to fund any such deficits. Such deficits, if any, would be added to future property tax levies and amortized over a 10 year period.

The financial impact of the requested increase of \$800 per year of service would add approximately \$500,000 in liabilities for the plan in year one. Depending on investment rate of return, state fire aid and future benefit increases, a local levy may be required to sustain the plan.

### **4. ATTACHMENTS:**

Resolution from Plymouth Firefighters Relief Association requesting pension increase  
2011 Plymouth Fire Pay and Pension Worksheets (sorted by hours worked and longevity)  
Defined Benefit to Defined Contribution Plan Article  
Letter from PFRA  
PFRA Pension Increase Request Presentation

WHEREAS, a pension is designed to pay a fixed sum regularly to a former employee, or beneficiary thereof, as a perquisite for time and service rendered by the former employee; and

WHEREAS, the Plymouth Firefighters Relief Association ("PFRA" or "Association") receives and manages public money and, in concurrence with the City of Plymouth, provides retirement benefits for the City of Plymouth Firefighters ("Firefighters");

WHEREAS, the current defined benefit pension payable to Firefighters, ratified by the City of Plymouth, is, as of January 1, 2007, Seven Thousand Five Hundred Dollars (\$7,500) per year of service, and the maximum defined benefit pension payable under Minnesota state law is Ten Thousand Dollars (\$10,000) per year of service; and

WHEREAS, the PFRA Special Fund ("Special Fund") – used to pay pensions – appreciates with payments of Minnesota State Fire Aid and gains in market value of investments; and

WHEREAS, the Minnesota Office of State Auditor oversees the Association by helping ensure financial integrity and accountability and holding the Special Fund to the highest standards of financial accountability; and

WHEREAS, to ensure the greatest compliance with these standards of financial reliability and insulate from drastic market changes, among other things, Minnesota state law requires frequent actuarial valuations; and

WHEREAS, these actuarial valuations require a highly conservative liability factor to be applied against current assets to determine the Special Fund's funding ratio; and

WHEREAS, despite recent economic stagnation, the Special Fund has experienced strong performance against many market indicators demonstrating successful management of the Association's assets; and

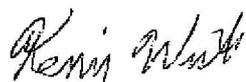
WHEREAS, the Special Fund has assets currently in excess of Six Million Three Hundred Thousand Dollars (\$6,300,000); and

WHEREAS, according to the most recent actuarial valuation based on financials as of December 31, 2011, the Special Fund is currently conservatively funded at a ratio of One Hundred Ten Percent (110.4%) for a benefit level of Seven Thousand Five Hundred Dollars (\$7,500) and conservatively funded near a ratio of One Hundred Three Percent (102.9%) for a benefit level of Eight Thousand Three Hundred Dollars (\$8,300); and

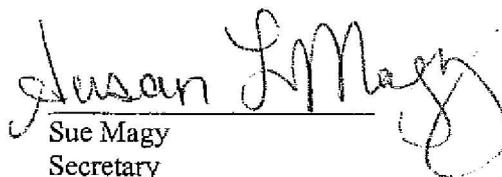
WHEREAS, the PFRA has had a strong record of being good stewards with the Association's assets, and the PFRA will continue to work with the City of Plymouth to ensure the long-term viability and sustainability of PFRA's Special Fund; NOW THEREFORE,

BE IT RESOLVED, the PFRA respectfully requests the City of Plymouth ratify a pension defined benefit increase bringing the pension defined benefit payable to Eight Thousand Three Hundred Dollars (\$8,300) per year of service, effective December 31, 2012.

Adopted by the Plymouth Firefighters Relief Association Board of Trustees, on this Monday, June 18<sup>th</sup>, 2012.



Kevin Werstein  
President



Sue Magy  
Secretary

City of Plymouth Fire Department  
(Sorted by Total Hours)

1/15/2013

Fire Fighter	Total Hours	Hourly Wage	Pension Benefit	Hourly Pension Benefit	Total Hourly Benefit	FICA Medicare	Total Wages Benefits	Years of Service	
1	1,222.00	13.73	7,500	6.14	19.87	1,284	18,062	12	
2	1,091.00	13.11	7,500	6.87	19.98	1,094	15,397	2	
3	1,010.50	13.73	7,500	7.42	21.15	1,061	14,936	3	
4	995.00	13.73	7,500	7.54	21.27	1,045	14,706	9	
5	969.00	13.73	7,500	7.74	21.47	1,018	14,322	15	
6	924.50	13.73	7,500	8.11	21.84	971	13,664	11	
7	874.00	13.73	7,500	8.58	22.31	918	12,918	18	
8	762.00	13.11	7,500	9.84	22.95	764	10,754	4	7.3
9	777.50	13.73	7,500	9.65	23.38	817	11,492	9	first quartile
10	758.00	13.73	7,500	9.89	23.62	796	11,204	5	
11	709.00	13.11	7,500	10.58	23.69	711	10,006	6	
12	720.50	13.73	7,500	10.41	24.14	757	10,649	4	
13	817.00	15.23	7,500	9.18	24.41	952	13,395	9	
14	663.50	13.11	7,500	11.30	24.41	665	9,364	3	
15	655.50	13.11	7,500	11.44	24.55	657	9,251	3	
16	580.50	13.11	7,500	12.92	26.03	582	8,193	3	9.7
17	542.50	12.48	7,500	13.82	26.30	518	7,288	6	first median
18	589.50	13.73	7,500	12.72	26.45	619	8,713	17	
19	665.50	15.23	7,500	11.27	26.50	775	10,911	5	
20	572.50	13.73	7,500	13.10	26.83	601	8,462	24	
21	514.50	13.73	7,500	14.58	28.31	540	7,604	4	
22	425.00	11.81	7,500	17.65	29.46	384	5,403	5	
23	461.00	13.73	7,500	16.27	30.00	484	6,814	7	
24	457.00	13.73	7,500	16.41	30.14	480	6,755	28	12.1
25	491.50	15.23	7,500	15.26	30.49	573	8,058	7	second quartile
26	487.50	15.23	7,500	15.38	30.61	568	7,993	7	
27	418.50	13.73	7,500	17.92	31.65	440	6,186	7	
28	405.50	13.73	7,500	18.50	32.23	426	5,993	5	
29	404.00	13.73	7,500	18.56	32.29	424	5,971	6	
30	401.00	13.73	7,500	18.70	32.43	421	5,927	27	
31	422.50	15.23	7,500	17.75	32.98	492	6,927	13	
32	383.00	13.73	7,500	19.58	33.31	402	5,661	26	
33	375.00	13.73	7,500	20.00	33.73	394	5,543	6	
34	361.00	13.11	7,500	20.78	33.89	362	5,095	1	10.4
35	368.00	13.73	7,500	20.38	34.11	387	5,439	5	mean
36	368.00	13.73	7,500	20.38	34.11	387	5,439	21	
37	363.50	13.73	7,500	20.63	34.36	382	5,373	5	
38	418.50	16.73	7,500	17.92	34.65	536	7,537	8	
39	483.00	19.73	7,500	15.53	35.26	729	10,259	20	
40	370.00	15.23	7,500	20.27	35.50	431	6,066	6	8.4
41	395.00	16.73	7,500	18.99	35.72	506	7,114	10	third quartile
42	328.00	13.11	7,500	22.87	35.98	329	4,629	3	
43	324.50	13.73	7,500	23.11	36.84	341	4,796	9	
44	323.00	13.73	7,500	23.22	36.95	339	4,774	10	
45	322.00	13.73	7,500	23.29	37.02	338	4,759	9	
46	335.00	15.23	7,500	22.39	37.62	390	5,492	8	
47	350.50	16.73	7,500	21.40	38.13	449	6,312	9	
48	290.50	13.11	7,500	25.82	38.93	291	4,100	5	
49	290.00	13.11	7,500	25.86	38.97	291	4,093	5	
50	297.00	13.73	7,500	25.25	38.98	312	4,390	4	
51	295.00	13.73	7,500	25.42	39.15	310	4,360	15	11.2
52	362.00	19.73	7,500	20.72	40.45	546	7,689	36	second median
53	282.50	15.23	7,500	26.55	41.78	329	4,632	10	
54	266.00	13.73	7,500	28.20	41.93	279	3,932	6	
55	229.00	13.73	7,500	32.75	46.48	241	3,385	9	
56	203.50	13.73	7,500	36.86	50.59	214	3,008	14	13.9
57	201.00	13.73	7,500	37.31	51.04	211	2,971	9	fourth quartile
58	178.50	13.73	7,500	42.02	55.75	187	2,638	17	
59	171.50	13.73	7,500	43.73	57.46	180	2,535	14	
60	163.50	13.73	7,500	45.87	59.60	172	2,417	19	
61	159.50	13.73	7,500	47.02	60.75	168	2,357	9	
62	155.50	13.73	7,500	48.23	61.96	163	2,298	10	
63	143.00	13.73	7,500	52.45	66.18	150	2,114	10	
64	135.50	13.73	7,500	55.35	69.08	142	2,003	36	

City of Plymouth Fire Department  
Hours per Quartile (sorted by Years of Service)

1/15/2013

Fire Fighter	Total Hours	Hourly Wage	Pension Benefit	Hourly Pension Benefit	Total Hourly Benefit	Years of Service	Total Hours
1	362.00	19.73	7,500	20.72	40.45	36	
2	135.50	13.73	7,500	55.35	69.08	36	
3	457.00	13.73	7,500	16.41	30.14	28	
4	401.00	13.73	7,500	18.70	32.43	27	
5	383.00	13.73	7,500	19.58	33.31	26	
6	572.50	13.73	7,500	13.10	26.83	24	
7	368.00	13.73	7,500	20.38	34.11	21	
8	483.00	19.73	7,500	15.53	35.26	20	412.9 hours
9	163.50	13.73	7,500	45.87	59.60	19	first quartile
10	874.00	13.73	7,500	8.58	22.31	18	
11	589.50	13.73	7,500	12.72	26.45	17	
12	178.50	13.73	7,500	42.02	55.75	17	
13	969.00	13.73	7,500	7.74	21.47	15	
14	295.00	13.73	7,500	25.42	39.15	15	
15	203.50	13.73	7,500	36.86	50.59	14	452.8 hours
16	171.50	13.73	7,500	43.73	57.46	14	first median
17	422.50	15.23	7,500	17.75	32.98	13	
18	1,222.00	13.73	7,500	6.14	19.87	12	
19	924.50	13.73	7,500	8.11	21.84	11	
20	395.00	16.73	7,500	18.99	35.72	10	
21	323.00	13.73	7,500	23.22	36.95	10	
22	282.50	15.23	7,500	26.55	41.78	10	
23	155.50	13.73	7,500	48.23	61.96	10	492.8 hours
24	143.00	13.73	7,500	52.45	66.18	10	second quartile
25	995.00	13.73	7,500	7.54	21.27	9	
26	777.50	13.73	7,500	9.65	23.38	9	
27	817.00	15.23	7,500	9.18	24.41	9	
28	324.50	13.73	7,500	23.11	36.84	9	
29	322.00	13.73	7,500	23.29	37.02	9	
30	350.50	16.73	7,500	21.40	38.13	9	
31	229.00	16.73	7,500	32.75	49.48	9	
32	201.00	13.73	7,500	37.31	51.04	9	476.2
33	159.50	13.73	7,500	47.02	60.75	9	mean
34	418.50	16.73	7,500	17.92	34.65	8	hours
35	335.00	15.23	7,500	22.39	37.62	8	
36	461.00	13.73	7,500	16.27	30.00	7	
37	491.50	15.23	7,500	15.26	30.49	7	
38	487.50	15.23	7,500	15.38	30.61	7	
39	418.50	13.73	7,500	17.92	31.65	7	455.4 hours
40	709.00	13.11	7,500	10.58	23.69	6	third quartile
41	542.50	12.48	7,500	13.82	26.30	6	
42	404.00	13.73	7,500	18.56	32.29	6	
43	375.00	13.73	7,500	20.00	33.73	6	
44	370.00	15.23	7,500	20.27	35.50	6	
45	266.00	13.73	7,500	28.20	41.93	6	
46	758.00	13.73	7,500	9.89	23.62	5	
47	665.50	15.23	7,500	11.27	26.50	5	
48	425.00	11.81	7,500	17.65	29.46	5	
49	405.50	13.73	7,500	18.50	32.23	5	499.6 hours
50	368.00	13.73	7,500	20.38	34.11	5	second median
51	363.50	13.73	7,500	20.63	34.36	5	
52	290.50	13.11	7,500	25.82	38.93	5	
53	290.00	13.11	7,500	25.86	38.97	5	
54	762.00	13.11	7,500	9.84	22.95	4	
55	720.50	13.73	7,500	10.41	24.14	4	
56	514.50	13.73	7,500	14.58	28.31	4	
57	297.00	13.73	7,500	25.25	38.98	4	543.8 hours
58	1,010.50	13.73	7,500	7.42	21.15	3	fourth quartile
59	663.50	13.11	7,500	11.30	24.41	3	
60	655.50	13.11	7,500	11.44	24.55	3	
61	580.50	13.11	7,500	12.92	26.03	3	
62	328.00	13.11	7,500	22.87	35.98	3	
63	1,091.00	13.11	7,500	6.87	19.98	2	
64	361.00	13.11	7,500	20.78	33.89	1	

# The Reasons For Changing a Defined Benefit Plan to a Defined Contribution Plan

By John Kibilko, eHow Contributor

Moving from a defined-benefit plan to a defined-contribution plan could help your retirement outlook.

*The advantages of defined-contribution retirement plans versus defined-benefit plans are numerous, and apply to employees, employers and taxpayers. A defined-benefit plan is a traditional -- or old-fashioned, depending on your age -- plan that is funded completely by employers and pays retirees a fixed amount each month based on years of service and salary. Many large, established companies and most public-sector entities still provide defined-benefit programs. Defined-contribution plans, like 401(k)s, allow employees to choose investment options and contribute to the plan (usually with the employer matching funds).*

## Advantages for Employees

Employees have control and choice. You decide -- from among options provided through your employer -- how much to set aside for retirement, and you also make all investment decisions. You can, if you choose to, buy and sell shares or direct your fund manager to do so while determining how conservative or risky to be with your investments. In defined-benefit plans, pension managers make investment decisions for all employees. You also don't have to worry about political, bureaucratic or union mishandling of retirement funds assets.

Defined-contribution plans have portability. Your retirement plan follows you when you change jobs, unlike a defined-benefit plan, in which many workers lose benefits (or vesting years) when they leave a job. You can transfer funds to another 401(k) fund, for example, when you begin work with another employer.

Workers enjoy immediate vesting in a defined-contribution plan because the entire amount of the account -- both the employee and employer contributions -- are the property of the worker. This is a benefit to employees who don't stay with companies long enough to vest. In traditional defined-benefit plans, employer contributions are tied up in investment pools and workers don't vest for a set number of years -- five or 10 typically. Most employees never see a dime of employer contributions to their benefit plans because they don't stay around long enough to qualify for benefits.

Despite periodic downturns in stocks and other investment instruments, long-term investment strategies can provide much higher returns than those typically realized by most defined-benefit retirement plans. Defined-benefit fund managers don't necessarily have the best interests of employees in mind. They are concerned with the long-term viability of the fund -- being able to pay retirees in the future. Often, higher investment returns result in employers cutting contributions or withdrawing excess assets.

Managing your own investment strategy can yield better results, through stocks, bonds, mutual funds and other tactics.

## Taxpayer Advantages

Most government employees participate in defined-benefit retirement plans. The 20 million state government employees in the U.S. account for more than \$5 trillion in pension liabilities (as of December 2008), of which nearly \$3.25 trillion is unfunded, according to a report published by Northwestern University. This debt will come due someday, and if states continue to tumble further into debt, the American taxpayer will foot the bill. Defined-contribution plans pose no such risk to taxpayers.

Because of political relationships among unions and politicians, the dangers and potential ramifications of defined-benefit pension plans, especially government-worker plans, are enormous. Again, defined-contribution plans eliminate these dangers.

## Employer Advantages

Unlike defined-benefit plans, in which retirees are guaranteed an open-ended amount of money (monthly benefits until they die, or even after they die if spouses qualify), defined-contribution plans allow employers to know their exact pension liabilities. When employers stop working for them – through quitting, retiring or dying -- the employer's contribution is done.

Through tax deductions for contributions, and tax credits for start-up and program administration costs, employers can realize savings on most pension plans.

A good, competitive defined-contribution plan can help attract desirable workers, especially younger workers who have grown up with defined-contribution plans, know how they operate, understand the benefits and will consider each potential employer's plan when choosing where to work.

## Plymouth Firefighters Relief Association

January 14, 2013

Mayor Kelli Slavik  
City of Plymouth  
3400 Plymouth Boulevard  
Plymouth, MN 55447

Dear Mayor Slavik:

Thank you very much for allowing the Plymouth Firefighters Relief Association (“PFRA”) the opportunity to present to you and the city council. The PFRA has appreciated the support the City of Plymouth has provided over the years and we hope to have your continued support for years to come. Today, we hope that you will grant our request to increase the PFRA pension. Our initial request (previously submitted) asks for an increase to \$8,300 per year of service from the current benefit of \$7,500 per year of service (state maximum defined benefit payable is \$10,000 per year of service). Please find a copy of our presentation materials attached to this cover letter.

Over the last fifteen (15) years our pension has increased five (5) times, for an average of once every three (3) years. The last pension increase was in 2007 where the pension increased from \$7,000 per year of service to its current \$7,500 per year of service. At that time in 2007, we had over \$6.1 million in assets, and we discontinued our monthly benefit payment option as well.

The PFRA Special Fund (“Pension Fund”) is primarily funded by Fire State Aid and investment earnings. Thanks to the City’s strong leadership creating a solid mix of commercial and residential real estate development in Plymouth, we recently received \$311,431.82 in Fire State Aid from the State of Minnesota. This amount was once again the highest in the state. Over the years, the PFRA investment earnings have also contributed greatly to the increase in our current assets.

As of our last actuarial (January 1, 2012), we had 103% worth of *current* assets versus *future* liabilities, accounting for an increase to \$8,300 per year of service, which was based on assets in excess of \$6.3 million (compared to over \$7 million in *current* assets as of December 31, 2012). When determining the above funding ratio (103%), the state requires an extremely conservative calculation to assure pension funds within the state are soundly-funded. The method of calculating our funding ratio is known as an Entry Age Normal Cost Method. This method analyzes the present dollars needed to pay future retirement benefits for each individual member. The method conservatively assumes each new member will receive at least a partially-vested pension from their first day. Furthermore if a member partially-vests in the Pension Fund, then it is assumed that they will work until the retirement age of fifty (50) years old. This conservative formula accounts for a wide range of possible variances, such as a loss of assets or an increase in membership numbers.

## Plymouth Firefighters Relief Association

If such occurrences were to happen, a municipal contribution may be needed. To date, the Pension Fund has not required a municipal contribution. Under State law, a municipal contribution may be required when a pension fund is not “fully-funded” or the Fire State Aid payment combined with prospective annual investment earnings will not cover the shortfall.

Several neighboring municipalities have recently paid required municipal contributions. The primary reason for those cities having to contribute can be traced to the design of their plans. Those municipalities offer defined benefit plans, like Plymouth; however, those cities also continue to have a monthly payment benefit option (versus lump-sum payment). As we mentioned previously, the PFRA discontinued its monthly benefit option when the pension was increased to \$7,500 per year of service. It is important to note that other neighboring communities routinely make voluntary municipal contributions (i.e. Maple Grove and West Metro Fire District) to their Pension Funds. It has been a long time, over forty (40) years, since the PFRA received a municipal contribution, required or otherwise.

Though we are unable to predict the future, we are confident that the Pension Fund will not require a municipal contribution if the pension is increased. Our confidence is grounded in our history of significant Fire State Aid payments, exceptional investment appreciation, and regular membership numbers.

You should be aware that some in this state have suggested that Fire State Aid should be used to fund the State’s recent General Fund budget deficits rather than firefighter pensions. The PFRA feels quite confident that this scenario will not materialize in the near future with the recently elected, pro-labor majorities in both houses of the State Legislature.

However if an elimination of Fire State Aid were to occur, we are confident that our past history of investment gains demonstrates our capability to enjoy future successes without Fire State Aid which should minimize any concerns. For the better part of the past decade, our investment performance has accounted for more than fifty percent (50%) of our Pension Fund appreciation. Moreover, if the error in the Fire State Aid (overstating insurance premiums) is taken into account, our investment performance amounts to between two-thirds ( $2/3^{\text{rd}}$ ) and three-quarters ( $3/4^{\text{th}}$ ) of the Pension Fund’s recent appreciation.

A significant change in PFRA membership could also potentially require a municipal contribution. Currently over two-thirds ( $2/3^{\text{rd}}$ ) of the PFRA membership has less than ten (10) years of service, the point when a member becomes partially-vested into the Pension Fund, and each year only a handful of members will become partially-vested in the Pension Fund. Moreover, despite numerous fire department hiring’s, resignations and retirements, our membership has remained relatively constant over the last ten (10) years (we have averaged between sixty-five (65) and seventy (70) members during that timeframe). Based on past practices we do not expect a significant spike in new members. Finally the last two (2) times the pension was increased (in 2003 and 2007), only four (4) firefighters retired in the years following the increases. Thus, we do not anticipate a major shift in membership numbers, up or down, that should affect a municipal contribution if the pension is increased.

## Plymouth Firefighters Relief Association

We understand that the trend throughout the country has been to forego defined benefit pension plans based on the long-term financial liability associated with exorbitant benefits. The PFRA benefit, though substantial, is not equivalent to those pension plans. Basically the Pension Fund does not include as much long-term exposure to risk because it pays a one-time, lump-sum benefit.

The Pension Fund is an important part of our compensation, in recruitment and retention. Though we cannot guarantee the City's long-term exposure to risk with our plan, we feel assured based on our history of solvency and measured increases that the reward is worth the risk now, and hope you do as well.

Based on the foregoing, we hope you will vote in favor of increasing the PFRA's pension as soon as practicable. In the event that a step increase over multiple years would be more palatable, we would be open to discussing this possibility as well.

Thank you again for your time, support, and the opportunity to present you this information. We would welcome any questions, comments or concerns that you may have now or in the future.

Respectfully,  
The PFRA Board of Trustees

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Dave Callister, Plymouth Administrative Services Director  
Rick Kline, Plymouth Fire Chief

**Plymouth Firefighters Relief Association**

**PENSION INCREASE REQUEST  
PRESENTATION**

**JANUARY 22, 2013**

## PFRA Pension Increase Request Presentation

January 22, 2013

Unless specifically noted in the slide,  
all of the statistical data presented in  
the following slides was taken  
directly from the Minnesota State  
Auditor's website

([www.osa.state.mn.us](http://www.osa.state.mn.us))

## PFRA Pension Increase Request Presentation

January 22, 2013

### **KEY FIGURES**

- Current Defined Benefit: \$7,500 per year of service
- As of December 31, 2012, assets in excess of \$7.0 Million\*  
*(compared to \$6.3 Million as of December 31, 2011, the date of our last actuarial)*
- Last Actuarial Valuation or Funding Ratio (assets compared against liabilities) of 103% for \$8,300 per year of service
- Currently 76 Active Plymouth Firefighters, 12 Deferred Members, and 5 Retired Members which are paid monthly

\* Based on Pension Fund balance as of December 31, 2012

## PFRA Pension Increase Request Presentation

January 22, 2013

### **WHY INCREASE THE PENSION?**

- An increase is overdue
  - Over the last fifteen years, we have historically seen a pension increase every 3 years
  - Our last pension increase was in 2007 (6 years ago)
  
- Increasing the pension is the right thing to do and now is the right time to increase it
  - We are currently over-funded for the increase (103% for \$8,300 per year of service)

\* Steady management of the Pension Fund has created a wide and increasing gap between it and equivalent pension plans

## PFRA Pension Increase Request Presentation

January 22, 2013

### **HISTORY OF PFRA PENSION INCREASES**

Year	Benefit	State Maximum Benefit Allowed	Actuarial Valuation or Funding Ratio at Time of Increase	Assets
1996	\$4,000/year	\$4,000/year	102%	\$2.398 M
1998	\$5,500/year	\$5,500/year	126%	\$3.279 M
2001	\$6,000/year	\$6,000/year	94%	\$4.015 M
2002	\$6,500/year	\$7,000/year	95%	\$3.718 M
2003	\$7,000/year	\$7,500/year	99%	\$4.537 M
2007	\$7,500/year	\$7,500/year	113%	\$6.462 M
2013	8,300/year	\$10,000/year	>103%*	\$7.040 M**

\* Assumption based on PFRA's 2012 Actuarial Valuation performed by Van Iwaarden Associates as of December 31, 2011, which contained \$6.3 million in assets

\*\* Based on Pension Fund balance as of December 31, 2012

## PFRA Pension Increase Request Presentation

January 22, 2013

### **KEY DEFINITIONS FOR FUNDING STATUS**

- Actuarial Valuation (a/k/a “Funding Ratio”)
  - Calculations prepared by an actuary comparing the *present* value of retirement plan assets against *future* liabilities using the Normal Cost Method (below) owed by the plan.  
(Minn. Stat. § 356.215, Subd. 1(b))
  
- Entry Age Normal Cost Method
  - A method of calculating the *present* dollars needed to pay *future* retirement benefits for each individual member, assuming that each member will reach the retirement age (50 years old) from their first day.  
(Minn. Stat. § 356.215, Subd. 1(d))

## PFRA Pension Increase Request Presentation

January 22, 2013

### EXAMPLE OF HOW CONSERVATIVE THE ENTRY AGE NORMAL COST METHOD IS CALCULATED

•Regardless of age, a member is expected to earn a pension benefit from their first day. Thus, the Pension Fund is required to have a minimum of ten years (partial-vesting) worth of *current* dollars on-hand for each new member.

• $\$8,300 \times 10$  years of service  $\times$  60% vesting ratio = \$49,800

E.g.  $\$49,800$  (for each new member)  $\times$  51 current members (> 10 years of service) = \$2,539,800

•Once vested, the method calculates that the member will work until retirement age (50 years old), and the Pension Fund is required to have those *current* dollars on-hand.

Entry Age	Actuarial Valuation Calculation	Entry Age Actuarial Cost Method Amount
25	$\$8,300 \times 25$ years of service =	\$207,500
30	$\$8,300 \times 20$ years of service =	\$166,000*

*Current* assets are measured against the Cost of *future* liabilities to determine the Funding Ratio.

## PFRA Pension Increase Request Presentation

January 22, 2013

### EQUIVALENT FIRE DEPARTMENTS BASED ON PENSION BENEFITS

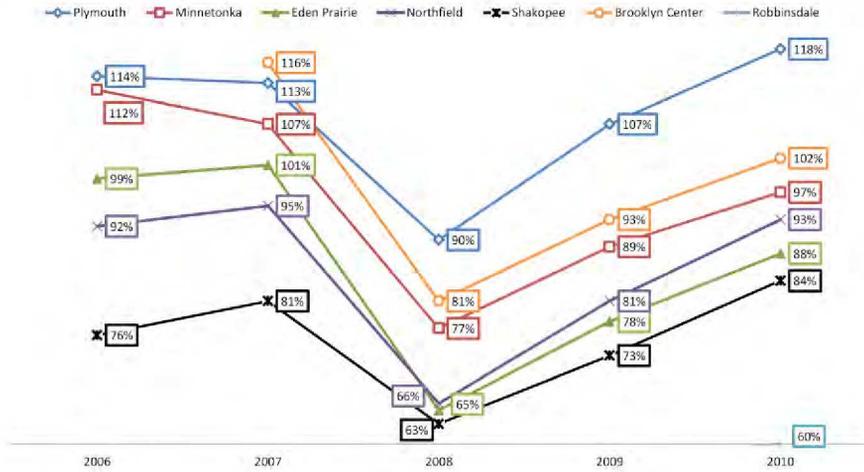
<u>City</u>	<u>Benefit</u>	<u>Funding Ratio</u> <i>(As of 12/31/2010)</i>
Plymouth	\$7,500	118%
Brooklyn Center	\$7,500	102%
Shakopee	\$7,500	84%
Northfield	\$7,500	93%
Robbinsdale	\$7,500	60%
Eden Prairie *	\$56	88%
Minnetonka*	\$56	97%

\* Both Eden Prairie and Minnetonka pay Monthly Pension Benefits (\$56/month = \$7,500/year, Minn. Stat. § 424.02, Subd. 3(c-d))

# PFRA Pension Increase Request Presentation

January 22, 2013

## **5-YEAR PERSPECTIVE OF COMPARABLE FIRE DEPARTMENT FUNDING RATIOS** **(CURRENT ASSETS VS. FUTURE LIABILITIES)**



## PFRA Pension Increase Request Presentation

January 22, 2013

### **REQUIRED MUNICIPAL CONTRIBUTIONS\***

State law requires a municipality to pay a municipal contribution to the Pension Fund unless:

- The Pension Fund is fully-funded, or
  - A Pension Fund is “fully-funded” when there are sufficient assets to cover future liabilities.
- Fire State Aid is sufficient to cover the municipal obligation.
  - Fire State Aid is based on a 2% tax of fire insurance premiums which is collected by the State of Minnesota and redistributed to municipalities to pay for volunteer firefighter pensions.
    - Plymouth's 2012 Fire State Aid (2%) money was \$311,431.82

\* Office of Minnesota State Auditor, *Statement of Position: Required Municipal Contributions to Volunteer Firefighters' Pensions Plans*, Rev. November 2012

## PFRA Pension Increase Request Presentation

January 22, 2013

### **HOW THE STATUTORY MUNICIPAL CONTRIBUTION IS CALCULATED\***

(Minn. Stat. § 69.773, Subd. 5)

- The minimum municipal contribution equals the financial requirements of the Pension Fund MINUS:
  - The estimated Fire State Aid payable (estimated by using the Aid amount from the year prior)  
AND
  - Any anticipated contributions, including investment earnings reasonably anticipated  
AND
  - Five Percent (5%) annual interest on the assets

\* Office of Minnesota State Auditor, *Statement of Position: Required Municipal Contributions to Volunteer Firefighters' Pensions Plans*, Rev. November 2012

## PFRA Pension Increase Request Presentation

January 22, 2013

### COMPARABLE MUNICIPAL CONTRIBUTIONS

Year	Minnetonka**	Maple Grove***	Eden Prairie**	Plymouth
2001	\$0	\$130,148	\$299,292*	\$0
2002	\$45,000*	\$147,676	\$272,504*	\$0
2003	\$75,000	\$158,645	\$262,696*	\$0
2004	\$45,000	\$169,771	\$260,000*	\$0
2005	\$0	\$177,851	\$290,000	\$0
2006	\$0	\$179,119	\$286,356*	\$0
2007	\$0	\$183,450	\$350,887*	\$0
2008	\$0	\$201,026	\$411,221*	\$0
2009	\$0	\$205,908	\$462,805*	\$0
2010	\$348,168*	\$201,344	\$1,129,002*	\$0

\* Required a municipal contribution

\*\* Minnetonka and Eden Prairie have Defined Benefit Plans (similar to Plymouth) with monthly payments versus lump-sum payments which has exponentially greater liabilities

\*\*\* Maple Grove has a Defined Contribution Plan (different than Plymouth) and they contribute voluntarily to their Fire Relief Association

## PFRA Pension Increase Request Presentation

January 22, 2013

### PFRA INVESTMENT EARNINGS VS. FIRE STATE AID

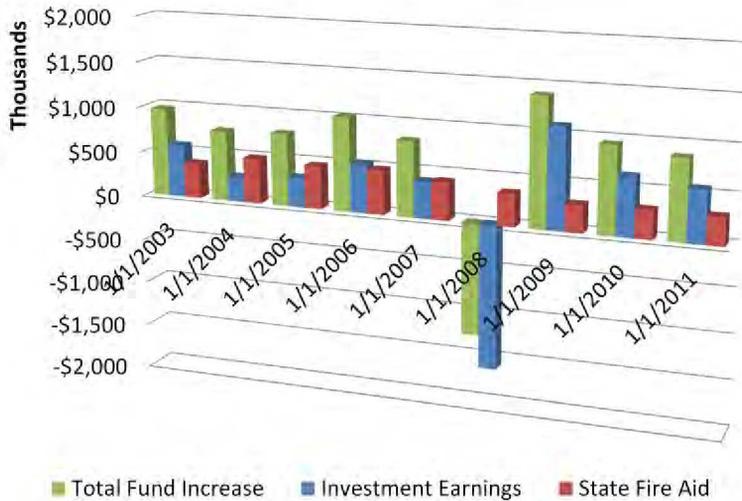
Year	Investment Earnings (Appreciation)	Fire State Aid	Total Increase	% Attributed to Investment Earnings
2003	\$580,651	\$388,908*	\$969,559	59.88%
2004	\$276,329	\$497,561*	\$773,890	35.70%
2005	\$327,393	\$472,303*	\$799,696	40.94%
2006	\$538,244	\$489,376*	\$1,027,620	52.37%
2007	\$407,507	\$419,827*	\$827,334	49.25%
2008	(\$1,584,789)	\$358,197*	(\$1,226,592)	0%
2009	\$1,100,134	\$301,859*	\$1,401,993	78.47%
2010	\$640,379	\$310,510	\$950,889	67.34%
2011**	\$570,101	\$304,862	\$874,872	65.15%

- Prior to 2007, insurance companies were overstating the amount of insurance premiums that actually dealt with fire insurance which resulted in above-normal distributions of Fire State Aid (which reduced the % attributed to Investment Earnings above). In response, the Minnesota Department of Revenue made adjustments to Fire State Aid between 2007-2009. See Minnesota State Auditor's "Pension Division Newsletter," dated September, 2007 ([www.osa.state.mn.us](http://www.osa.state.mn.us))
- \*\* Based on PFRA's 2012 Actuarial Valuation performed by Van Iwaarden Associates

# PFRA Pension Increase Request Presentation

January 22, 2013

## PFRA INVESTMENT EARNINGS VS. FIRE STATE AID



## PFRA Pension Increase Request Presentation

January 22, 2013

### **PFRA MEMBERSHIP OVER THE LAST 10 YEARS**

Year	# of Active Members	# of Deferred Members
2001	62	17
2002	68	27
2003	62	26
2004	65	30
2005	63	32
2006	69	28
2007	66	25
2008	72	22
2009	69	18
2010	71	19

10-year average:

~66

~24

5-year average:

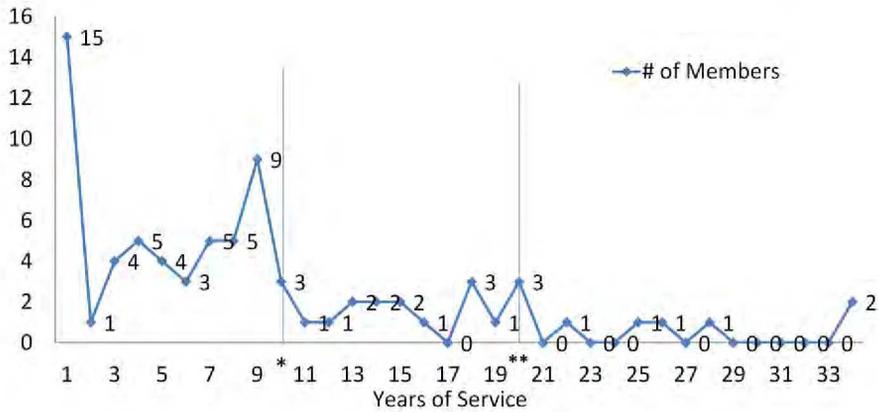
~69

~22

## PFRA Pension Increase Request Presentation

January 22, 2013

### YEARS OF SERVICE DISTRIBUTION FOR CURRENT PFRA MEMBERSHIP\*\*\*



\* 10 Years = partial-vesting in PFRA Pension (60% of benefit payable, which increases by 4% for each subsequent year of service)

\*\* 20 Years = fully-vested in PFRA Pension

\*\*\* Based on PFRA Membership Records

PFRA Pension Increase Request Presentation

January 22, 2013

**MASS EXODUS, IF PENSION IS  
INCREASED?**

In the years following the last 2 pension increases, the PFRA had the following # of retirements\*:

- 2003 - 4 retirements
- 2007 - 4 retirements

\* Based on PFRA Membership Records

## PFRA Pension Increase Request Presentation

January 22, 2013

# Any Questions?